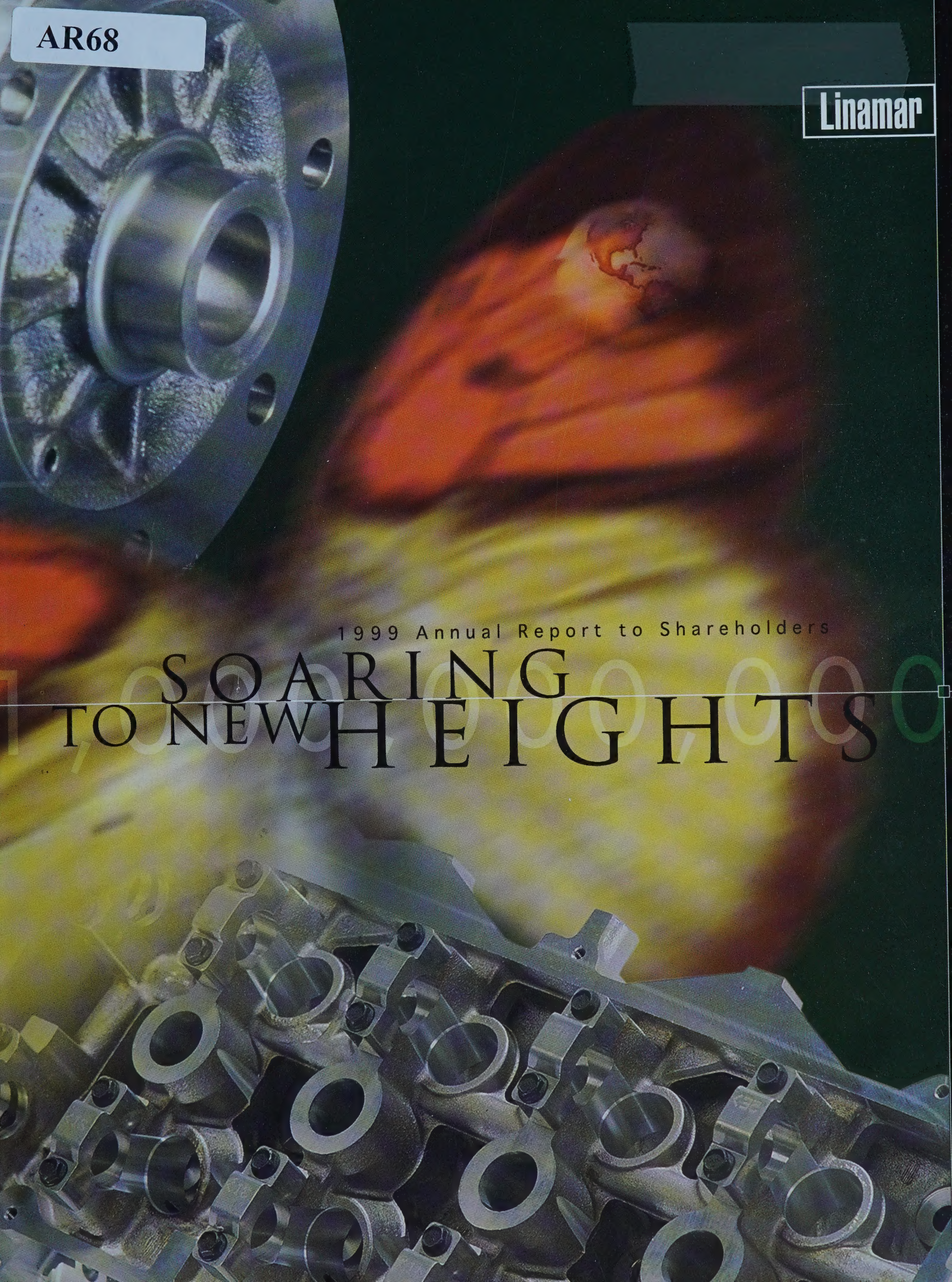
Linamar

1999 Annual Report to Shareholders

SOARING TO NEW HEIGHTS

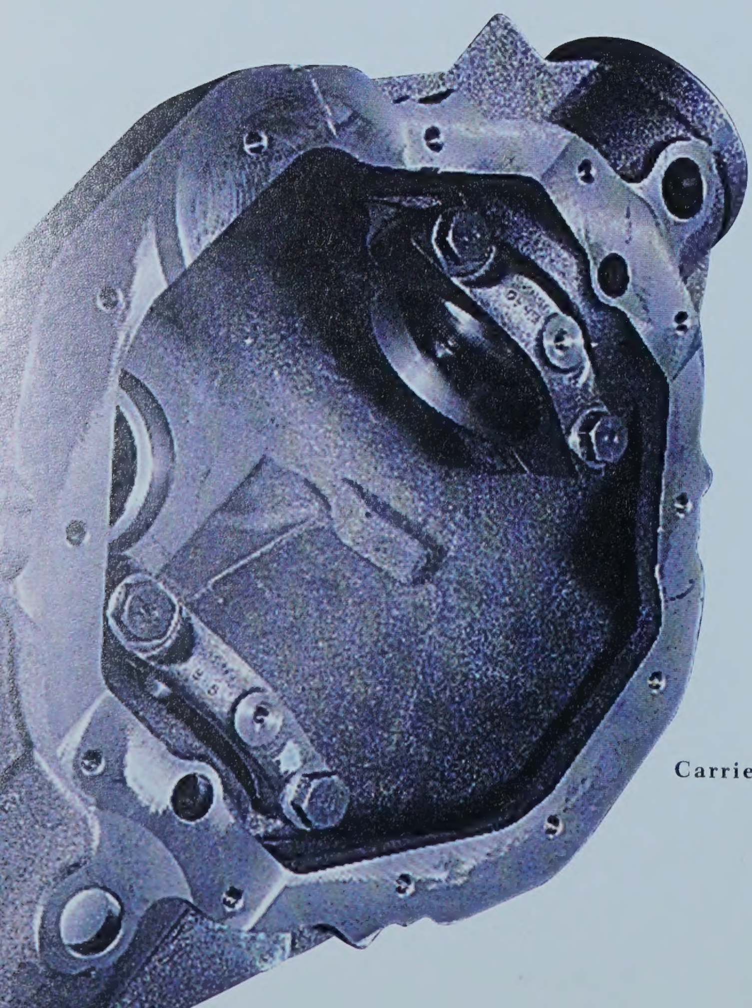


Front and rear differentials

STRENGTHENING THE FOUNDATION
GLOBAL PLANT CLUSTERING
EXPANDING INTERNATIONAL INTEGRATION
INCREASED PRODUCT FOCUS

Linamar Corporation, 1999 Annual Report to Shareholders

We're building a foundation for vibrant



Carrier

Contents

growth into 2000, and well beyond.

Cylinder heads

We're strengthening shareholder value

Annual Meeting

The Company's Annual Meeting will take place at the River Run Centre, 35 Woolwich Street, Guelph, Ontario – Thursday, May 4th, 2000 at 6:00 p.m.

Financial Highlights

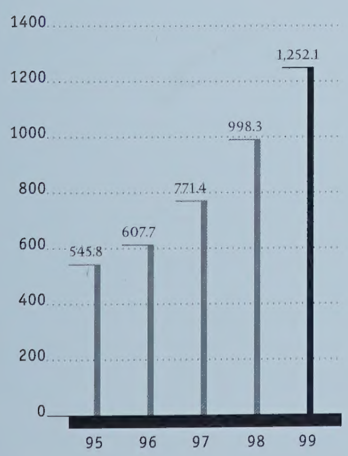
(millions of dollars, except share related information)

	Year Ended December 31 1999	1998	1997	1996	1995
Statement of Earnings					
Sales	$ 1,252.1	$ 998.3	$ 771.4	$ 607.7	$ 545.8
Operating Earnings	106.8	127.7	134.1	86.0	58.7
Net Earnings	65.6	84.4	108.4	61.6	37.5
Net Earnings Excluding Non-Recurring Items	$ 65.6	$ 84.4	$ 88.9	$ 54.7	$ 37.5
Share Information					
Fully Diluted Earnings Per Share	$ 0.92	$ 1.17	$ 1.51*	$ 0.87*	$ 0.55*
Fully Diluted Earnings Per Share Excluding Non-Recurring Items	$ 0.92	$ 1.17	$ 1.24*	$ 0.78*	$ 0.55*
Weighted Average Number of Common Shares Outstanding	70,440,391	70,383,476	68,494,662*	66,969,276*	66,140,007*
Market Price TSE High	$ 29.25	$ 33.50	$ 30.77*	$ 14.67*	$ 8.00*
Low	10.10	19.25	14.17*	6.83*	4.90*
Close	$ 13.75	$ 26.00	$ 27.67*	$ 14.67*	$ 7.67*
Financial Position					
Total Assets	$ 827.1	$ 686.6	$ 531.9	$ 364.4	$ 330.0
Capital Assets	472.4	400.2	242.6	204.5	165.6
Long-Term Debt	4.0	5.8	8.4	18.1	28.0
Shareholders' Equity	$ 469.5	$ 423.3	$ 346.6	$ 240.7	$ 185.0
Other Financial Information					
Cash from Operating Activities	$ 91.9	$ 67.6	$ 146.9	$ 128.5	$ 38.4
Payments for Capital Assets	168.5	171.2	88.4	89.5	54.1
Amortization	84.8	58.5	49.4	40.5	30.1
Working Capital	$ 35.0	$ 71.3	$ 140.2	$ 52.5	$ 41.1

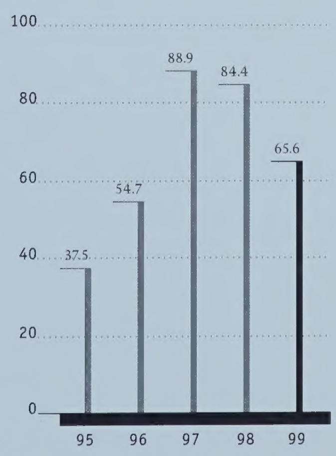
**Reflects the 3 for 1 stock split of May 1998*

by leveraging our proven successes.

Sales
$ (Millions)



Net Earnings Excluding Non-Recurring Items
$ (Millions)



Chairman's Message to the Shareholders

STRENGTHENING THE FOUNDATIO
GLOBAL PLANT CLUSTERING
EXPANDING INTERNATIONAL INTEGRATIO
INCREASED PRODUCT FOCUS

1999 has been a challenging year for Linamar Corporation. As happens all too often in markets of exceptional opportunity, growth can cause temporary setbacks even as it takes one's company to new heights. The automotive component and system market continues to grow rapidly and not only as a result of automotive market growth. The latter has certainly surprised many an analyst as unprecedented vehicle production levels are again attained in 1999 in North America.

This coupled with global growth in Europe, Eastern Europe and Asia has resulted in tremendous pressure on automotive manufacturers to create more and more capacity. This, combined with ongoing internal pressure within the OEM's to escalate outsourcing, has resulted in a market bursting with opportunity.

For Linamar, taking advantage of this opportunity has resulted in a rapid growth curve over the past few years. The Company established nine new facilities in 1998, designed to meet ongoing customer needs globally and across a range of components and capabilities. Startup of these facilities is of course a time consuming process, which has resulted in significant costs through part of 1998, and all of 1999. Costs are expected to continue well into 2000. The message is of course short-term pain for long-term gain. Ultimately, the success of each of the new facilities will result in a stronger, larger, more profitable entity focused in the geographic and product markets considered most opportunistic.

Linamar is a growth-oriented company, and will continue to focus on growth. For the short-term, growth will be focused on the bottom line as effort is put to ensuring the successful launch of all new facilities. Top line growth will continue in order to guarantee Linamar's place in the market-place, but will be more conservative in the 10-15% range in contrast to the 25-30% of recent years. Growth will come from continuation of the marketing strategy, which has been so successful for us.

...stronger, larger, more profitable

First, focus on the highly engineered systems of the vehicle – engine, transmission, driveline, steering and brake – which are redesigned infrequently. Doing so allows acquisition of long-term contracts, which offer excellent sales visibility and stability and great opportunity for reaping the profitability benefits of utilizing continuous improvement tools.

Secondly, focus growth across a wide range of platforms in order to guard against sales fluctuations related to model demand. As demand decreases for a particular model it is increasing for another – production for both platforms allows for a flattening of these demand peaks and valleys.

Finally, increasing content per vehicle year over year guards against sales fluctuations related to vehicle production cycles. If Linamar provides more dollar value of componentry to each vehicle produced each year, sales growth will continue even in years of declining vehicle production. Content per vehicle is increased through expansion of the precision-machined components core, particularly with regard to products whose market is currently expanding. Content is also increased through integration both backwards into castings and forwards into assemblies.

In summary, the market dynamics of the automotive world and the capabilities of Linamar Corporation continue to create a recipe for success. 2000 will be a year to continue strengthening the foundation of the Company in anticipation of future opportunities. Though startup costs will continue at a significant level this year they will be much improved from 1999. These costs are absolutely an investment in the future, which looks more promising each day.

Frank J. Hasenfratz
Chairman & Chief Executive Officer

Various transmission cases, covers & housing

entity **focused** in the **geographic** and **product** markets...

STRENGTHENING THE FOUNDATIO
GLOBAL PLANT CLUSTERING
EXPANDING INTERNATIONAL INTEGRATIO
INCREASED PRODUCT FOCUS

1999 was a year of evolution for Linamar. With twenty-eight facilities and more than $1.2 billion in sales, significant effort was made to reconcile the Company's new size with its operating philosophies, systems, procedures and resources. The challenge of course is to evolve the business strategies and systems of Linamar in tune with the Company's growth as well as a changing world, without compromising core values and purpose.

Clearly 1999 was a difficult year for Linamar operations. With one third of the Company's facilities in startup mode, significant pressures were put on the bottom line. 2000 will be a year of intense focus on growing that bottom line. Cost Action Teams for example are attacking every aspect of cost improvement on a program-by-program basis. Manpower utilization, cell layout and logistics, tooling and processing are just a few examples of the issues these teams of experts are exploring. Led by top management, these sessions are serving to re-germinate the technical and operational philosophies the Company was founded on throughout new facilities and employees. Enthusiastic team members at the facility level are taking lessons learned and applying them to every program in their facility.

This type of results oriented training is a key initiative of the Company for 2000 in order to strengthen the foundation of the organization. In addition, comprehensive training courses have been developed or are in the development process for such key positions as Program Management, Operations Management and Multi-Skilled Setup Apprentice. Such training in conjunction with comprehensive succession planning is essential in a growth-oriented company such as Linamar.

Another key part of Linamar's evolution in 1999 was creation of a highly effective results oriented organizational structure. Large unmanageable groups of five, six or seven facilities were broken into smaller more focused groups of three, at most four, facilities. These changes resulted in more hands on interaction of seasoned Group Vice Presidents with plants more closely knit and focused on working together. The appointment of Jim Jarrell to the Chief Operating Officer position created a position 100% focused on operational performance. This recipe is proving to be very successful, with new plants leveraging off the strength of old.

The focus on operational performance was extended through creation of a very visually effective Quality Operating System.

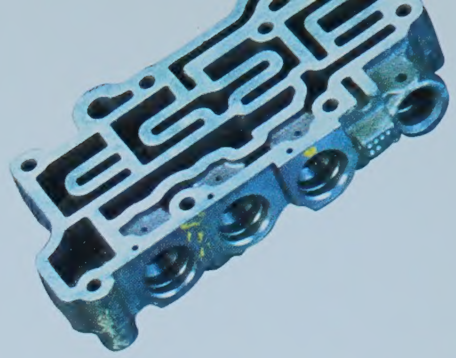
...a growth-oriented organizational structure,

The System, created by the Company's Corporate Management Team, takes the basic goal of the Company to balance customer, employee and financial satisfaction and assigns key measurables to each stakeholder, which essentially defines attainment of such. Colour coding of measurables and ranking of results create a system, which is highly responsive and focused on areas requiring improvement as well as appealing to our entrepreneurial management teams.

Closing the loop to performance is a compensation system at all levels linked to achievement of these goals.

Another key element to growth support and by far the largest initiative of 2000 is improvement in communication and information flow. Knowledge is the basis for continued improvement and thus information must be made available to all stakeholders. Linamar's growth has necessitated a formalization of the informal communication networks formerly in place both through the computerized information network and the human interactive network which together link all areas of the Company. Many projects are currently underway to meet this objective.

Ultimately, Linamar will emerge from these many changes a refreshed and revitalized organization. With a

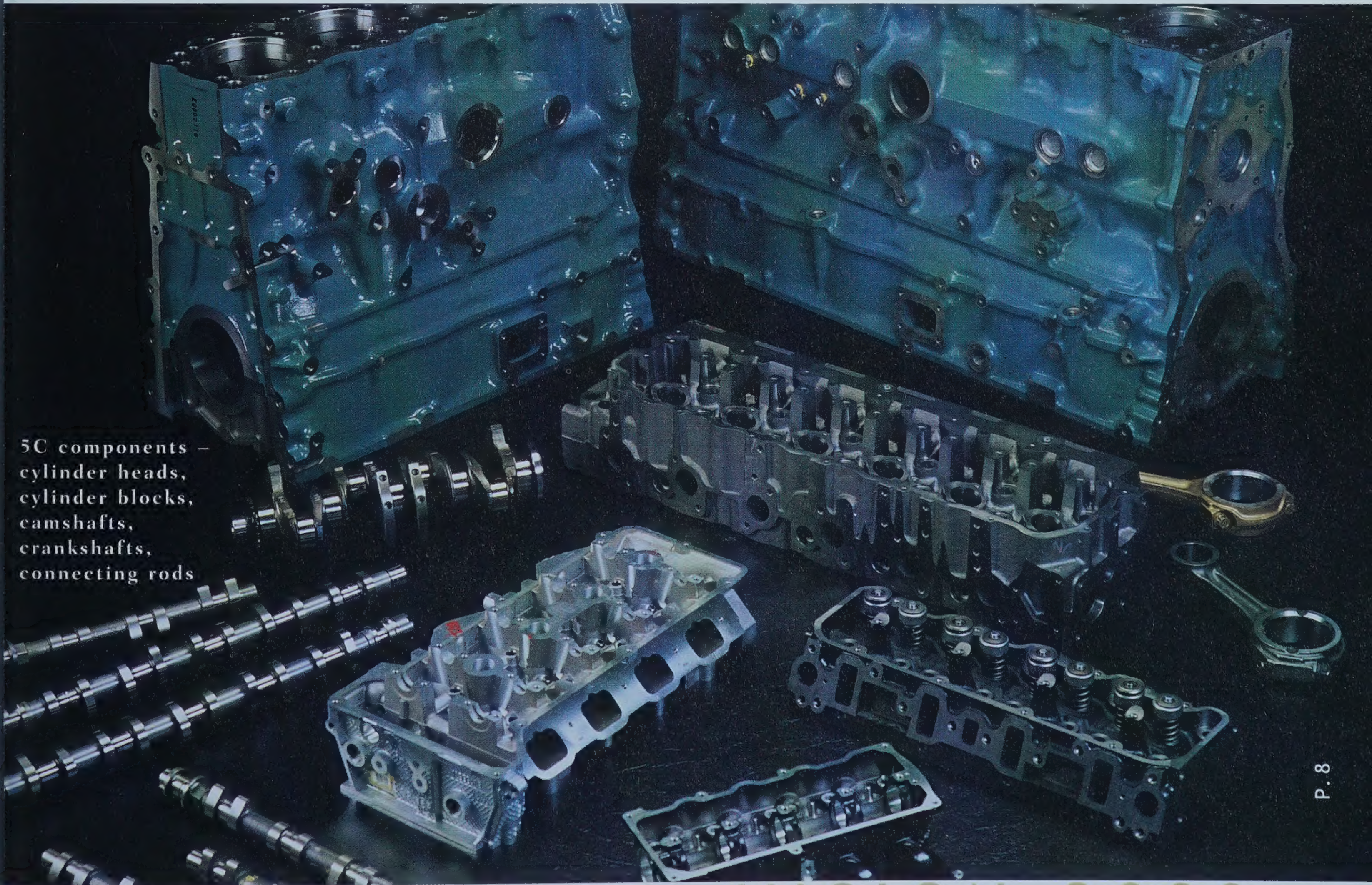


Valve body

growth-oriented organizational structure, strengthened resources and improved information networks the Company will be in a position to take its global plant clusters to full utilization of their expertise across a range of products and services. Most importantly during this era of change, Linamar will not lose touch with the key core values of the Corporation. Linamar will always be highly responsive both to customers and employees. It will always be dedicated to producing the highest quality components in the most technically advanced innovative method devised by people of excellent technical strength. It will always maintain the autonomy and hands on entrepreneurial nature of its facilities in its highly decentralized structure thus guaranteeing respect for each individual at the same time as maximizing customer attention. Though 2000 will continue to be a year of transition for the Company, it will emerge financially strong for future years, once again meeting and exceeding its goals of 20% return on investment. With a strengthening foundation, product expertise in expanding markets, a strong global presence and the capability to be a full service supplier, Linamar is poised for an exciting, prosperous future.

Linda Hasenfratz
President

strengthened resources and improved information networks...



5C components – cylinder heads, cylinder blocks, camshafts, crankshafts, connecting rods

Linamar has just begun to spread its' wings

The Company:

Linamar Corporation is a global manufacturer of precision-machined components, assemblies and castings primarily for the automotive industry.

The Company is focussed on maintaining the low cost, high quality, on-time reputation for manufacturing that has facilitated its growth. With sales revenue for the year ended December 31, 1999 of $1.2 billion, Linamar has come a long way from the one-man operation started by the current Chairman of the Board and CEO, Frank Hasenfratz, in the basement of his home in Ariss, Ontario 34 years ago. In 1986, Mr. Hasenfratz further ensured the success and growth of Linamar by taking the Company public. Linamar has successfully traded on The Toronto Stock Exchange since that time. Linamar utilizes a strategy of balancing customer, employee and financial satisfaction as the basic premise of running the business. This strategy permeates every business decision in every department, driving operations systems and even compensation systems.

Various gears

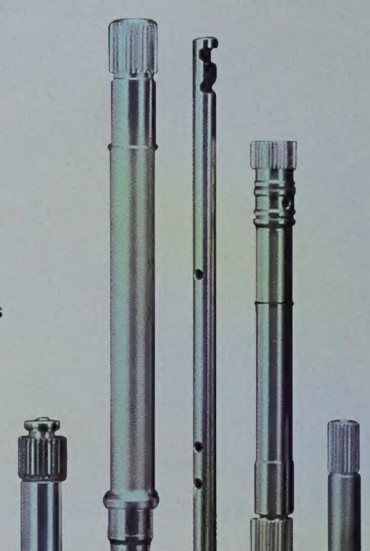
Though the Company was founded on machining for the defense, aerospace and automotive industries, a decision was made in the mid 1980's to focus primarily on the automotive sector. As the automotive industry's requirements for high precision machining grew during the 1980's, Linamar became an established supplier. In 1999, the automotive industry accounted for over 86% of the Company's total sales.

The Company's expertise in the machining and assembly of various automotive systems and components – engine, transmission, drivelines, steering, suspension and brake components – its solid lean, entrepreneurial management organizational structure and its dedication to leading edge technology are all key ingredients in what makes Linamar so successful.

Linamar's technical strength across a wide range of precision-machined components within the vehicle's highly engineered systems is a key competitive advantage. Particular attention has been given over the past few years to gaining product expertise in areas of the market which are currently expanding. With the majority of precision machined components in the vehicle still not available to the supply base, it is very important to be able to demonstrate capability and competency on those components next in line for outsourcing. Linamar has been very successful in this regard with acknowledged expertise in the manufacturing of several critical complex components.

Linamar has recently taken the Company's precision machining core and enhanced it by the establishment of several facilities dedicated to complementary processes. Two foundries, one lost foam and one grey and ductile iron, are currently in operation in North America, with a third foundry planned to be constructed in Hungary with Joint Venture partner Wescast Industries Inc. within the next two years. As well, two facilities in North America are primarily focused on assembly operations, expanding on the many sub assemblies most facilities produce. These moves have established Linamar more firmly as the full service supplier our customers are looking for.

Shafts



and soar to exciting new heights.

Wheel & braking components – hubs, valve bodies, spindles, brackets, calipers, rotors, discs

Quality:

Linamar's dedication to organizational quality leads it to strive for the highest quality in everything that it does. This is reflected in the number of prestigious designations that the Linamar companies are honoured to have received over the years. In 1991 Linamar received the Canadian Award for Business Excellence (CABE) under the Quality category. Several Linamar companies have also been distinguished with Supplier awards from various customers, including Ford Motor Co., General Motors, and Cummins. The Ontario Government has also honoured one of Linamar's companies with an award for its waste reduction initiatives. Currently nineteen facilities are QS-9000 registered and twenty-four ISO-9002 registered – with the remaining facilities scheduled to be registered shortly.

It is Linamar's policy to provide product, services and processes that will meet or exceed its customers' quality requirements and expectations. Accordingly, the implementation and management of effective quality operations systems is a key building block at Linamar and an absolute necessity to ensure that customer quality and delivery requirements are maintained. Such systems include extensive Statistical Process Control, Dimensional Control Planning, Failure Mode and Effect Analysis and personnel training.

Training is a key element in quality production and one which has been a significant focus over the past year. A comprehensive succession planning guide specifying training courses designed to provide the necessary skills for each position has been established and being well utilized by all facilities. Many other training courses have been or are in the process of being developed, including a comprehensive program management course and a detailed management training course.

Training is a key part of strengthening the foundation of the Company to ensure our people are adequately prepared for quality management and quality production.

Increasing our opportunities in

Technology:

Linamar takes pride in its innovative approach to solving its customers' most demanding manufacturing problems. Linamar has a very strong technical orientation, both in its people and its equipment. Twenty-five percent of Linamar's workforce is of a technical orientation; allowing Linamar to be highly responsive to customer needs and concerns. Linamar's commitment to leading edge technology in the close tolerance sophisticated manufacturing field, funded by an aggressive capital expenditure program, ensures that the Company is taking advantage of highly efficient, highly capable equipment. Doing so allows the Company to provide products of the highest quality for the lowest cost. New technologies and resources developed at any one Linamar Company are shared with all companies, thus keeping the entire Corporation on the leading edge of technology.

Service:

Linamar is committed to providing total satisfaction to its customers, its employees, its shareholders and its community. The Company ensures dependable and consistent sales service to its customers and human resource services to its employees, by centralized coordination of the Sales, Marketing & Product Development, Human Resources and Finance functions at the corporate level. This dedication to its customers, employees and shareholders is an essential ingredient in the Company's efforts to strive towards Total Quality Management.

Linamar's Transportation Company is another example of the Company's commitment to complete Customer Satisfaction. Its fleet of tractor trailers ensures timely, safe and efficient delivery of customer's products across North America. Utilization of Linamar's in-house Customs Department guarantees smooth, efficient deliveries across all international borders.

Ultimately, it is Linamar's goal to continue penetration into the automotive market, which has proven to be such a successful venture for the Company. Linamar will continue to focus on the operational philosophies which have served the Company well in the past while remaining cognizant of the changing world, in order to continuously improve strategies, organizational structure, systems and practices.

start-to-finish integration.

Camshafts

Expansion through plant clustering.

Organizational Structure:
One of the main ingredients to Linamar's success has been the drive of its hands-on highly responsive management team. Operating through twenty-eight autonomous facilities, each with its own cross functional management team, Linamar has in excess of 2.6 million square feet of manufacturing floor space and employs over 8,473 people worldwide. The Company's capital resources and decentralized organizational structure grant the ability to expand any of Linamar's current facilities, or build a facility to suit a customer's needs quickly and efficiently. Significant interplant interaction of many disciplines and levels ensure performance at all facilities is optimized through sharing of Best in Practice techniques and problem solving ideas. Corporate overhead is kept to a minimum with teams of facility personnel making the key decisions which affect them.

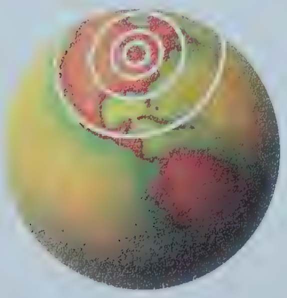
Linamar's headquarters are located in Guelph, Ontario, along with a significant percentage of the Company's manufacturing capacity. This places considerable capacity within a 200-mile radius of Detroit, Michigan, the core of the North American automotive industry.

The Company's European manufacturing capacity operated by its Mezögép Rt. subsidiary is located in South Eastern Hungary. Hungary is centrally located in Europe making it ideally situated for penetration into European markets.

The Company's Mexican manufacturing capacity located in North Central Mexico is ideally situated to penetrate into the Mexican and South American markets.

Linamar's newly expanded global presence has offered exciting opportunities in the Mexican and European marketplace. Each manufacturing center is comprised of several facilities. The practice of clustering facilities within a small geographic area allows the cluster to enjoy the economies of scale of being a large company while ensuring individual facilities still meet customer and employee needs on a personalized basis.

Linamar is committed to the premise that organizational quality is one of the single most critical elements in building and sustaining competitiveness in the global marketplace. In order to do this the Company maintains a policy of educating employees, establishing continuous improvement programs and thereby maintaining continuous improvement in all areas of production and management. Linamar works diligently with all twenty-eight facilities to continuously improve organizational effectiveness. This concept is incorporated into all of the Company business functions including quality assurance, manufacturing, material management, finance and engineering. Continuous improvement has been a major driving factor in 1999, as the Company works to strengthen its foundation in light of recent rapid growth. Such a situation requires careful evaluation of organizational structure, systems, procedures and resources to ensure all are in line with Company goals.



Twenty-two facilities in the U.S. and Canada – including twenty in Ontario, one in Michigan and one Kentucky.

Two facilities in Mexico – one in Saltillo and one in Torréon.

Four facilities in Hungary – NOTE: Hungary will be the site of a new joint venture facility with partner Wescast Industries Inc.

Management's Responsibility for Consolidated Financial Statements

The management of Linamar Corporation is responsible for the preparation of all information included in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and necessarily include some amounts that are based on management's best estimates and judgment. Financial information included elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains a system of internal accounting controls to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that the assets are safeguarded from loss or unauthorized use.

The Company's external auditors, appointed by the shareholders, have prepared their report, which outlines the scope of their examination and expresses their opinion on the consolidated financial statements. The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the Company. The Audit Committee meets periodically with management and with the auditors to review and to discuss accounting policy, auditing and financial reporting matters. The Committee reports its findings to the Board of Directors for their consideration in reviewing and approving the consolidated financial statements for issuance to the shareholders.

Frank J. Hasenfratz
Chief Executive Officer
February 9, 2000

Linda Hasenfratz
President

Auditors' Report to the Shareholders of Linamar Corporation

We have audited the consolidated balance sheets of Linamar Corporation as at December 31, 1999 and December 31, 1998 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and December 31, 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Kitchener, Ontario
February 9, 2000

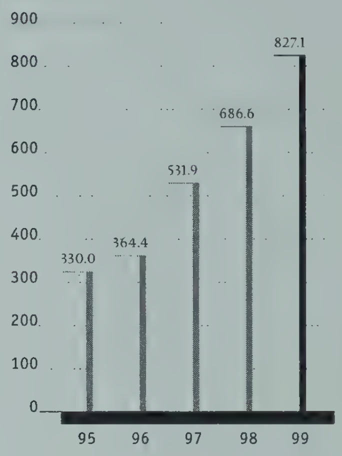
Consolidated
Balance Sheets

As at December 31, 1999 (in thousands of dollars)

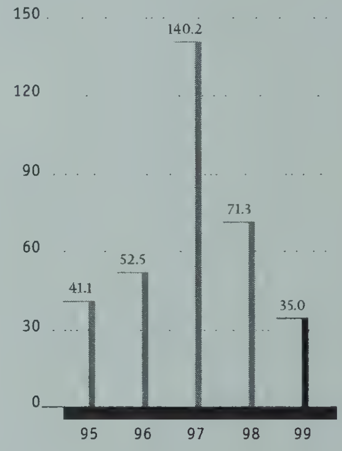
	December 31 1999	December 31 1998
Assets		
Current Assets		
Cash and short-term investments	$ 14,451	$ 25,199
Accounts receivable	222,281	163,102
Inventories *(note 4)*	101,082	91,998
Prepaid expenses	15,620	1,155
Other assets	-	862
Income taxes recoverable	519	3,194
	353,953	285,510
Investment in Preference Shares, at cost	686	914
Capital Assets (notes 5 and 6)	472,424	400,155
	$ 827,063	$ 686,579
Liabilities		
Current Liabilities		
Short-term bank borrowings	$ 129,897	$ 46,152
Accounts payable and accrued liabilities	182,458	161,485
Current portion of long-term debt *(note 6)*	1,539	2,761
Advance payments from customers	5,054	3,840
	318,948	214,238
Accounts Payable not due in Current Year	-	5,840
Long-Term Debt (note 6)	2,508	3,024
Future Income Taxes	14,515	16,080
Non-Controlling Interests	21,547	24,107
	357,518	263,289
Contingent Liabilities (note 9)		
Shareholders' Equity		
Capital Stock (note 7)	83,381	81,669
Retained Earnings	386,164	341,621
	469,545	423,290
	$ 827,063	$ 686,579

The accompanying notes are an integral part of these statements.

Total Assets
$ (Millions)



Working Capital
$ (Millions)



On behalf of the Board of Directors

Frank J. Hasenfratz
Director

Linda Hasenfratz
Director

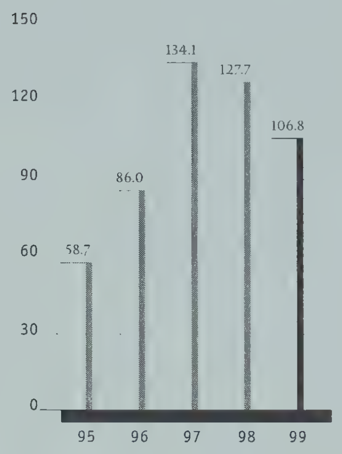
Consolidated Statements of Retained Earnings

For the year ended December 31, 1999 (in thousands of dollars)

	December 31 1999	December 31 1998
Balance – Beginning of Year	$ 341,621	$ 275,467
Net earnings for the year	65,647	84,385
	407,268	359,852
Dividends	11,265	9,639
Excess of cost over assigned value of common shares purchased and cancelled *(note 7)*	9,839	8,592
	21,104	18,231
Balance - End of Year	$ 386,164	$ 341,621

The accompanying notes are an integral part of these statements.

Operating Earnings
$ (Millions)



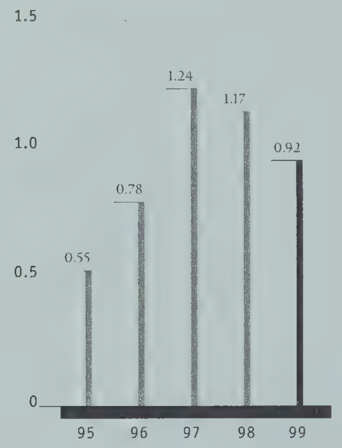
Consolidated Statements of Earnings

For the year ended December 31, 1999 (in thousands of dollars, except per share figures)

	December 31 1999	December 31 1998
Sales	$ 1,252,115	$ 998,312
Cost of Sales and Operating Expenses Before the Following:	1,000,261	766,034
Amortization	84,771	58,465
Selling, general and administrative	60,281	46,093
	1,145,313	870,592
Operating Earnings	106,802	127,720
Other Income (Expense)		
Interest earned	1,882	4,585
Other income	36	882
Interest on long-term debt	(63)	(169)
Other interest expense	(5,164)	(1,407)
	(3,309)	3,891
	103,493	131,611
Provision for (Recovery of) Income Taxes *(note 8)*		
Current	41,871	38,568
Future	(1,565)	4,758
	40,306	43,326
	63,187	88,285
Non-Controlling Interests	(2,460)	3,900
Net Earnings for the Year	$ 65,647	$ 84,385
Earnings Per Share		
Net earnings for the year		
Basic	$ 0.93	$ 1.20
Fully diluted *(note 13)*	$ 0.92	$ 1.17

The accompanying notes are an integral part of these statements.

Fully Diluted Earnings Per Share Excluding Non-Recurring Items
$



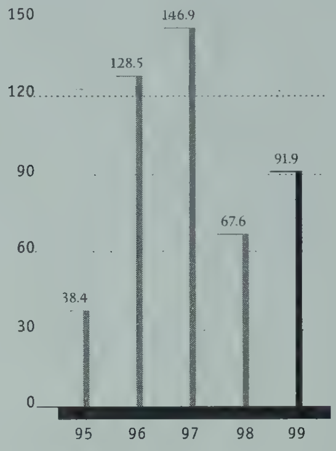
Consolidated Statements of Cash Flows

For the year ended December 31, 1999 (in thousands of dollars)

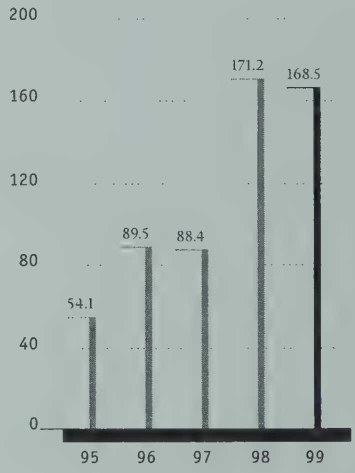
	December 31 1999	December 31 1998
Cash Provided by (Used in)		
Operating Activities		
Net earnings for the year	$ 65,647	$ 84,385
Charges (credits) to earnings not involving cash:		
Amortization	84,771	58,465
Future income taxes	(1,565)	4,758
Non-controlling interests	(2,460)	3,900
Loss (gain) on disposal of capital assets	282	(75)
Government subsidy	-	(579)
	146,675	150,854
Changes in non-cash working capital (net of effects of acquisitions):		
Increase in accounts receivable	(59,179)	(45,248)
Increase in inventories	(9,084)	(18,942)
Decrease (increase) in prepaid expenses	(14,465)	139
Decrease (increase) in other assets	862	(862)
Decrease (increase) in income taxes recoverable	2,675	(3,194)
Increase (decrease) in accounts payable and accrued liabilities	23,203	(1,514)
Decrease in income taxes payable	-	(14,967)
Increase in advance payments from customers	1,214	1,370
	91,901	67,636
Financing Activities		
Proceeds from short-term bank borrowings	83,745	46,152
Proceeds from long-term debt	1,209	-
Repayment of long-term debt	(2,947)	(2,023)
Proceeds from common share issuance *(note 7)*	2,873	11,064
Repurchase of shares *(note 7)*	(11,000)	(9,107)
Dividends to shareholders	(11,265)	(9,639)
Dividends by subsidiaries to non-controlling interests	-	(288)
	62,615	36,159
Investing Activities		
Purchase of capital assets	(168,460)	(171,247)
Proceeds from disposal of capital assets	3,068	6,803
Proceeds on redemption of preference shares	228	229
Increase (decrease) in investment by a non-controlling interest	(100)	850
Business acquisitions *(note 2)*	-	(24,981)
	(165,264)	(188,346)
Decrease in Cash and Short-Term Investments	(10,748)	(84,551)
Cash and Short-Term Investments - Beginning of Year	25,199	109,750
Cash and Short-Term Investments - End of Year	$ 14,451	$ 25,199

The accompanying notes are an integral part of these statements.

Cash from Operating Activities
$ (Millions)



Capital Expenditures
$ (Millions)



Notes to Consolidated Financial Statements

For the year ended December 31, 1999

1. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a consistent basis.

Basis of Consolidation

These consolidated financial statements include the accounts of the company and its subsidiaries. Investments in joint ventures are consolidated on a proportionate basis. Acquisitions are accounted for using the purchase method.

Cash and Short-Term Investments

Short-term investments are stated at the lower of cost and market. Short-term investments of $8,261,048 at December 31, 1998 consisted of government securities, bank short-term deposits and commercial paper.

Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis and market. For raw materials, market is defined as replacement cost; for work-in-process and finished goods, market is defined as net realizable value.

Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is charged to earnings in amounts sufficient to amortize the cost of capital assets over their estimated useful lives using the diminishing balance and straight-line methods as follows:

Buildings	5% diminishing balance
Machinery	Straight-line over 5 years or 15% - 20% diminishing balance
Office equipment	20% diminishing balance
Transportation equipment	10% and 30% diminishing balance
Tooling	Straight-line over 1 year

Patents and Licences

Patents are recorded at cost and are amortized on a straight-line basis over a period of 17 years. Licences are recorded at cost and are amortized on a straight-line basis over a period of 3 years.

Income Taxes

Income taxes are provided, at current rates, for all items included in the statement of earnings regardless of the period in which such items are reported for income tax purposes. The principal item which results in timing differences between financial and tax reporting purposes is amortization. Future income taxes are adjusted for current changes in income tax rates.

Share Option Plan

Under the company's share option plan the company, with the approval of the Board of Directors, may grant options to its key employees and directors for up to 3,221,000 shares of common stock in addition to those options already granted. The exercise price of each option equals the market price of the company's stock on the date of the grant and an option's maximum term is 5 years. All outstanding options are vested. No compensation expense is recognized for these plans when shares or share options are issued. Any consideration paid on exercise of share options or purchase of shares is credited to share capital.

Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Pension Costs

The company has various contributory and non-contributory defined contribution pension plans which cover most employees. Current service pension costs are charged to earnings as they accrue. In 1999, pension costs of $9.1 million (1998 – $7.0 million) under government sponsored plans and $3.9 million (1998 – $2.7 million) under company sponsored plans were expensed in the year.

1. Significant Accounting Policies *(continued)*

Earnings Per Share

Earnings per share are calculated using the weighted monthly average number of shares outstanding during the year. The average number of shares outstanding was 70,440,391 in 1999 (1998 – 70,383,476).

Foreign Currency Translation

The company enters into forward exchange contracts to limit its exposure under contracted US$ net cash inflows. These contracts are treated as hedges. The monetary assets and liabilities of the company which are denominated in foreign currencies are translated at the year end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings except those which relate to hedges of future net cash flows. The company's foreign operations are of an integrated nature and the company uses the temporal method to translate the accounts of its subsidiaries and interests in joint ventures.

Revenue Recognition

Revenue from the sale of products is recognized at the time goods are shipped to customers. Revenue from the sale of tooling is recognized once the tooling is substantially complete and the customer approves the initial production sample.

Research and Development

Research costs are expensed as incurred. Development costs are expensed as incurred but would not be expensed if they met the criteria under generally accepted accounting principles for deferral and amortization.

Start up Costs

All start up costs including preproduction costs and organization costs are expensed as incurred.

2. Acquisitions *(in thousands of dollars)*

In 1999, the Company had no acquisitions. The following acquisitions occurred in 1998:

a On January 31, 1998, the company acquired a 77.5% interest in a small casting business located in Ontario.
b On June 8, 1998, the company acquired a manufacturing business located in Michigan, United States.
c On June 29, 1998, the company acquired a 60% joint venture interest in a precision machining business located in Kentucky, United States.
d On December 31, 1998, the company acquired a 55% joint venture interest in an engine assembly and components machining business located in Durango, Mexico.

All of the above-noted acquisitions have been accounted for as purchases with the results of operations included in these financial statements from the effective date. Details of the net assets acquired are as follows:

	a	b	c	d	Total
Cash	$ -	$ -	$ 3,768	$ 419	$ 4,187
Other current assets	4,572	-	6,613	2,581	13,766
Capital assets	3,327	10,250	500	21,399	35,476
Total assets	7,899	10,250	10,881	24,399	53,429
Bank advances	2,582	-	-	-	2,582
Other current liabilities	2,210	-	3,555	4,802	10,567
Total liabilities	4,792	-	3,555	4,802	13,149
Total acquisition costs	$ 3,107	$ 10,250	$ 7,326	$ 19,597	$ 40,280
Consideration given:					
Cash	$ 3,107	$ 10,250	$ 7,326	$ 5,903	$ 26,586
Payable over the next two years	-	-	-	13,694	13,694
	$ 3,107	$ 10,250	$ 7,326	$ 19,597	$ 40,280
Non-controlling interest	$ 850	$ -	$ -	$ -	$ 850

3. Joint Ventures *(in thousands of dollars)*

The following is a summary of the company's proportionate share of its joint ventures.

	December 31 1999	December 31 1998
Statements of earnings		
Sales	$ 67,925	$ 16,373
Expenses	56,960	15,186
Net earnings for the year	$ 10,965	$ 1,187
Balance sheets		
Current assets	$ 21,852	$ 16,643
Capital assets	22,550	21,813
Current liabilities	12,084	16,025
Long-term liabilities	-	5,840
Statements of cash flows		
Cash used in operating activities	2,920	292
Cash used in investing activities	2,394	6
Cash from financing activities	$ -	$ -

4. Inventories *(in thousands of dollars)*

	December 31 1999	December 31 1998
Raw materials	$ 46,345	$ 41,307
Work-in-process	36,645	35,335
Finished goods	18,092	15,356
	$ 101,082	$ 91,998

5. Capital Assets *(in thousands of dollars)*

	December 31 1999			December 31 1998
	Cost	Accumulated amortization	Net	Net
Land	$ 11,915	$ -	$ 11,915	$ 9,512
Buildings	82,960	15,091	67,869	63,431
Machinery	633,023	259,722	373,301	318,356
Office equipment	9,688	4,994	4,694	4,626
Transportation equipment	11,992	2,144	9,848	1,089
Tooling	24,118	19,321	4,797	3,141
	$ 773,696	$ 301,272	$ 472,424	$ 400,155

As at December 31, 1999, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately $50.3 million.

6. Long-Term Debt *(in thousands of dollars)*

	December 31 1999	December 31 1998
Interest free loan payable in annual installments of $1,100,000 in 2000, and $1,074,248 in 2001	$ 2,174	$ 3,274
Interest free loan payable in Hungarian forints 120,000,000 in annual installments of 40,000,000	664	1,134
Interest free loan payable in Hungarian forints 182,700,000 in quarterly installments of 9,135,000 beginning in March, 2000	1,069	-
Loan payable, $135,000 principal plus accumulated interest at prime plus 1/2%	140	-
Bank term loan	-	1,377
	4,047	5,785
Less: current portion	1,539	2,761
	$ 2,508	$ 3,024

Principal payments required to meet long-term obligations in the next five years are as follows:

Year ending December 31,	2000	$ 1,539
	2001	1,513
	2002	439
	2003	416
	2004	-

Specific machinery is pledged as security for the interest free loans.

The company is committed under certain long-term operating leases. Future minimum lease payments under these operating leases are as follows:

Year ending December 31,	2000	$ 2,492
	2001	2,418
	2002	1,757
	2003	1,326
	2004	1,361
	Thereafter	2,895

7. Capital Stock

The company is incorporated under the Ontario Business Corporations Act in Canada and is authorized to issue an unlimited number of common and special shares.

At the beginning of the year, options to purchase 5,688,000 common shares at a weighted average price of $18.91 were outstanding.

Under the share option plan, the company granted options during the year on common shares. These options, which remained outstanding at year-end, can be exercised as follows:

820,000 at $22.53 a share before August 16, 2004

At December 31, 1999, under the share option plan, the company also had options outstanding which can be exercised as follows:

780,000 at $7.47 a share before February 21, 2001
1,361,000 at $11.17 a share before January 11, 2002
12,000 at $26.04 a share before January 15, 2003
6,000 at $28.54 a share before July 14, 2003

During the year, options to purchase 3,048,000 common shares at an average price of $27.29 were forfeited or surrendered.

During the year, options for 481,000 common shares were exercised giving proceeds of $2,873,650.

In November, 1999, the company filed a normal course issuer bid which entitles the company to acquire up to 5,631,288 of its common shares before October 31, 2000. The purchases are made on the open market at the market price at the time of any particular transaction. Under this bid, during 1999, the company repurchased for cancellation 972,000 common shares with an assigned value of $1,161,061 for $11,000,275 cash.

	December 31 1999	December 31 1998
Issued (in thousands of dollars)		
69,803,776 common shares (1998 – 70,294,776)	$ 83,381	$ 81,669

8. Income Taxes *(in thousands of dollars)*

The company's income taxes and effective tax rate are made up as follows:

	December 31 1999				December 31 1998			
Combined basic Canadian Federal and Provincial income taxes	$	45,019	%	43.50	$	57,251	%	43.50
Increase (decrease) in income taxes resulting from:								
Manufacturing and processing reduction		(9,314)		(9.00)		(11,845)		(9.00)
Federal income surtax		1,159		1.12		1,474		1.12
Tax losses of prior years recognized in the year		(3,031)		(2.93)		-		-
Unrecognized benefit of losses carried forward		4,004		3.87		903		0.69
Effect of foreign earnings tax rates		3,178		3.08		(3,119)		(2.37)
Miscellaneous		(709)		(0.69)		(1,338)		(1.02)
Income taxes and effective income tax rate	$	40,306	%	38.95	$	43,326	%	32.92

At December 31, 1999, a U.S. subsidiary had available losses of approximately $2.3 million expiring in 2019. Also, Mexican subsidiaries had available losses of approximately $82.5 million which are available to the consolidated entity. The losses expiring in years ended December 31, 2000 to December 31, 2005 were acquired with the purchase of the Mexican joint venture in 1998. These losses expire according to the following schedule. No tax benefit has been recognized in the consolidated financial statements for any of these losses.

Year ending December 31,	2000	$ 22,100
	2001	18,600
	2003	13,100
	2004	11,300
	2005	5,700
	2008	2,500
	2009	9,200

9. Contingent Liabilities

The company is involved in certain lawsuits and claims. Management believes that adequate provisions have been recorded in the accounts. Although it is not possible to estimate the potential costs and losses, if any, management is of the opinion that there will not be any significant additional liability other than amounts already provided for in these financial statements.

10. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

11. Related Party Transactions

Included in the purchase of capital assets are the construction of buildings, building additions and building improvements in the aggregate amount of $4.0 million (1998 - $10.4 million) by a company owned by the spouse of a director. Included in cost of sales are lease costs of $0.4 million (1998 - $0.6 million) related to properties leased from a company owned by two directors. These transactions have been recorded at the exchange amount.

12. Financial Instruments

Foreign Currency Risk

The company enters into forward exchange contracts to manage exposure to currency rate fluctuations related primarily to its future net cash flows of U.S. dollars from operations. The purpose of the company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. At December 31, 1999, the company was committed to a series of monthly forward exchange contracts maturing during the following three years as noted below. At December 31, 1999, the net unrecognized gain was approximately $0.07 million. As these forward exchange contracts qualify for accounting as hedges, the unrealized gains and losses are deferred and recognized in earnings as the sales and expenses which generate the net cash flow occur.

Year	*Amount Hedged U.S.$*	*Average Exchange Rate*
2000	$168,000,000	1.3990
2001	$124,000,000	1.4642
2002	$ 60,000,000	1.4800

The Company's short-term bank borrowings are denominated in U.S. dollars and these are not accounted for as hedges.

Credit Risk

A substantial portion of the company's accounts receivable are with large customers in the automotive and truck industry and are subject to normal industry credit risks. At December 31, 1999, the accounts receivable from the company's three largest customers amounted to 22.9%, 7.2 % and 2.8 % of accounts receivable (1998 – 27.3%, 5.7% and 4.9%).

Interest Rate Risk

At December 31, 1999, the increase or decrease in net earnings for each 1% change in interest rates on the short-term bank borrowings amounts to approximately $0.8 million (1998 - $0.3 million).

Fair Value

Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists. The company's fair values are management's estimates and are generally determined using market conditions at a specific point in time and may not reflect future fair values. The determinations are subjective in nature, involving uncertainties and matters of significant judgment. At December 31, 1999, the carrying values reported in the balance sheet for cash and short-term investments, accounts receivable and current liabilities approximate fair value, due to the short-term nature of those instruments. The fair values of the investment in preference shares, the accounts payable not due in the current year and the long-term debt are not significantly different from carrying values.

13. Fully Diluted Earnings Per Share

If it were assumed that the options had been exercised at the beginning of the year, then the earnings per share would have been $0.92 (1998 - $1.17). This calculation assumes after-tax imputed earnings of approximately $1.4 million (1998 - $1.5 million) based on an after-tax rate of return of approximately 6.0% on the funds which would have been received.

14. Cash Flows *(in thousands of dollars)*

The cash flows from operating activities include:

	December 31 1999	December 31 1998
Interest paid	$ 5,204	$ 1,586
Interest received	1,882	5,191
Income taxes paid	$ 39,196	$ 56,729

15. Segmented Information *(in thousands of dollars)*

The company currently operates primarily in one significant industry segment and in four countries and accounts for inter-segment sales and transfers at current market prices.

The precision machining segment is the dominant segment. It consists primarily of the manufacturing and assembly of automotive components for original equipment manufacturers and their suppliers. The company also has smaller segments which are not reportable. These include the assembly and sale of harvesting equipment, the manufacture and sale of castings and the transportation of the company's products. Substantially all automotive revenue is derived from sales to major North American manufacturers. In the year ended December 31, 1999, sales to the company's three largest customers amounted to 21.6%, 7.9% and 7.8% of total sales revenue (1998 – 26.1%, 8.8% and 8.3%).

Geographic Information

Sales to unaffiliated customers in:	December 31 1999	December 31 1998
Canada	$ 111,347	$ 90,322
United States	1,051,529	854,489
Other foreign countries	89,239	53,501
	$ 1,252,115	$ 998,312

The company currently operates in four geographic segments.

December 31 1999

	Canada	United States	Mexico	Hungary	Total
Total revenue	$ 1,111,410	$ 59,141	$ 50,566	$ 52,122	
Inter-segment sales	1,062	253	4,864	14,945	
Sales to customers outside the company	$ 1,110,348	$ 58,888	$ 45,702	$ 37,177	$ 1,252,115
Net earnings for the year	$ 75,846	$ (5,455)	$ (434)	$ (4,310)	$ 65,647
Interest earned	1,072	239	286	285	1,882
Interest expense	4,974	-	132	121	5,227
Income tax expense	39,502	(959)	1,763	-	40,306
Identifiable assets	638,428	47,457	64,840	61,887	812,612
Capital assets	370,736	15,507	47,246	38,935	472,424
Payments for capital assets	130,658	4,215	18,459	15,128	168,460
Amortization	$ 73,471	$ 2,873	$ 4,296	$ 4,131	$ 84,771

December 31 1998

	Canada	United States	Mexico	Hungary	Total
Total revenue	$ 915,281	$ 34,221	$ 383	$ 59,275	
Inter-segment sales	177	687	4	9,980	
Sales to customers outside the company	$ 915,104	$ 33,534	$ 379	$ 49,295	$ 998,312
Net earnings for the year	$ 79,505	$ 603	$ (2,222)	$ 6,499	$ 84,385
Interest earned	3,618	107	5	855	4,585
Interest expense	1,443	2	-	131	1,576
Income tax expense	42,864	462	-	-	43,326
Identifiable assets	543,155	30,199	38,942	57,345	669,641
Capital assets	330,323	14,084	34,315	21,433	400,155
Payments for capital assets	146,737	4,360	10,026	10,124	171,247
Amortization	$ 54,871	$ 1,146	$ 67	$ 2,381	$ 58,465

Management's Discussion and Analysi

Management's discussion and analysis of financial condition and results of operat

Overview

The operating strategy of Linamar Corporation and its subsidiaries (collectively, the Company) remains the development and exploitation of our core competency of precision machining and includes the pursuit of opportunities which are aligned with that core competency. The average sales' growth of approximately 27.2% per year over the past three years has exceeded the Company's target of 15% to 20% annual growth. Over the past three years, the Company has taken steps to become a full service supplier of assemblies and sub-assemblies to complement its core machining business. To achieve this objective the Company has entered into strategic alliances and joint ventures with casting companies and foundries, and has developed its own in-house casting capacity. The Company has also diversified into the assembly of engines and drivelines. This activity is based on the Company's machining expertise. The Company continues to develop its expertise in the five C's - cylinder heads, crankcases, camshafts, crankshafts and connecting rods. Over the next decade, we expect that there will be a large market for the five C's as the OEM's continue their outsourcing programs.

Corporate Management Group

The Company operates through facilities that function as autonomous operating units while a few of the facilities are dedicated to a particular customer or product, the majority of them can be classified as multi-product and multi-customer facilities. There are no particular facilities or group of facilities, which from an operating point of view constitute a significant "manageable group". As a result, management decision making is responsive to the following criteria: (i) the Company as a whole; (ii) response to certain data as reported by a facility; (iii) maximizing a product line within a facility and (iv) maximizing the synergies of plant clusters (as discussed below).

The Company's dominant operating segment is the supply of assemblies and precision machined parts, mainly to the North American automotive industry. The Company conducts such operations in four countries. Through the automotive section of this segment, the Company manufactures components and parts for a wide range of platforms for automobiles, as well as light, medium and heavy duty trucks. These components and parts are used primarily for the manufacture of transmissions, engines, steering, axles, drivelines, brakes, and suspension systems. Our automotive and light truck customers include General Motors, Ford, Chrysler, Honda and Toyota. We also produce for the North American diesel engine market.

The Company has been most successful in operating in plant clusters where resources can be shared immediately to meet business opportunities. The Company's main plant cluster is centered in Guelph, Ontario where the Company operates 18 of its 29 manufacturing facilities and employs 5,633 of its 8,473 employees. In 1999 the Company expanded its Guelph operations by purchasing 28 acres of land for future expansion, completing a plant expansion which added 55,000 sq. ft. of manufacturing space and building a new Corporate office.

In its drive to achieve growth in revenue, the Company over the past two years has made large commitments of its people and resources to its many start up facilities. The high costs of these start ups have negatively affected earnings. The Company's future prospects are included in the outlook section of this report.

During 1998, the Company increased its manufacturing capacity in Guelph with the construction of two precision machining facilities. The Company also terminated its lease of a warehouse facility and built a new warehouse facility for its transportation and customs business.

In 1999 we completed our expansion of a foundry in Windsor in which the Company had purchased a 77.5% interest in 1998. This expansion project, started in 1998, was to increase capacity at this facility from $16 million to $30 million in annual sales. The expansion of this facility has been difficult, as the new furnace and moulding line has not functioned as planned and continued problems have been encountered with breakdowns and

Bearing cap

Financial Condition and Results of Operations

ld be read in conjunction with the accompanying consolidated financial statements.

excessive scrap. The Company has resolved many of these issues and expects this facility to be at a break even point at the end of year 2000 with a sales level of approximately $25 million.

During 1998 and 1999, investments were made in the Guelph "lost foam" casting facility bringing its moulding capacity up to $40 million in annual sales. Over the next two years the Company will invest a further $6 million investment in pouring, foam and finishing equipment so that this plant can function at its capacity.

In late 1997, the Company through its LPP Manufacturing Division, now LPP Manufacturing Inc., established a dedicated assembly facility in Guelph. LPP Manufacturing Inc. assembles small gasoline engines for power generation used in portable welders, motor homes and other applications. Other Linamar facilities machine components for these engines. Although the margins are low on these engines, this endeavour has provided the Company with further expertise in assembly and opened up new opportunities in the crankshaft and camshaft components market. Since our investment in LPP Manufacturing Inc., the Company has obtained a significant contract to manufacture camshafts.

The Company now has two facilities in Mexico. In 1998, the Company built a new facility, Linamar de Mexico S.A. de C.V., to machine transmission components for a nearby General Motors assembly plant. With a very difficult start up, this facility began production in mid 1999. It continues to experience difficulties as discussed in greater detail below. In addition, at the 1998 year end, the Company, with a 45% minority partner, purchased from Renault France an established Mexican engine manufacturing company and named it, Industrias de Linamar S.A. de C.V. This company has a million square foot facility, which initially was dedicated to machining engine components and assembling a complete engine for Renault France until July 2000. Recently, the Company signed an extension to the machining and assembly contract with Renault France, which extends the original 19 month contract to December 2002. The Company plans to develop this site for new engine business in the future.

In 1998, the Company purchased a 60% interest in a successful business, Eagle Manufacturing L.L.C., a company that machines connecting rods and cylinder heads in Kentucky, U.S.A. In 1999, this company acquired an option on a further 66,000 square feet of manufacturing space in anticipation of obtaining further machining contracts. It also purchased a start up business in Michigan U.S.A. which machines, cleans and paints engine blocks. This process, as discussed below, has been underpriced and with the underfunding the start up of this business has been very difficult. Having made process improvements to achieve efficiencies, the Company is currently taking steps to address this situation in cooperation with the customer.

In 1999, the Company entered into a 50:50 joint venture with Wescast Industries Inc., a Canadian foundry that manufactures cast iron exhaust manifolds for the light vehicle and truck industry. This joint venture has a mandate to develop casting and machining capacity in new facilities at Oroszlany, Hungary. This joint venture company, Weslin Autoipari Rt., will manufacture cast iron exhaust manifolds, differential cases and turbo charger housings. Over the next two years the joint venture will oversee the building of a new 110,000 square foot foundry and machining facility at an estimated total cost of $130 million. Subsequent to the year end, land was purchased, the design was well underway and the new management team had been assembled. Recently Weslin Autoipari Rt. obtained a contract to supply differential case castings for Volkswagen AG in Europe.

The headquarters of the Company's European precision machining business is currently centered in Orosháza, Hungary. The Company through its subsidiary, Mezögép Rt., operates in two locations in Hungary. During the year Mezögép Rt. completed three major investments in facilities in Hungary. The automotive facility in Orosháza was expanded

Tophat

by 75,000 square feet. This expansion was necessary to accommodate the volume of new machining contracts, which Mezögép Rt. has obtained, particularly those in respect of the production of parts for General Motors' continuously variable transmission. Mezögép Rt. has also consolidated much of the Orosháza agricultural work in a new 140,000 sq. ft. facility. This work had previously been conducted in small workshops. In 1998, Mezögép Rt. obtained a contract to machine components for electrical generators. This business was transferred from a facility in Great Britain to Mezögép Rt.'s third building, a new, recently completed 50,000 sq. ft. manufacturing facility at Békéscsaba, Hungary.

Executive Management Group

During early 1998, Mezögép Rt. also converted a portion of its agricultural facilities at Orosháza to precision machining. With many new products and customers developing, Mezögép Rt.'s precision machining business is quickly expanding. Currently products for the European automotive market are being supplied from the Company's manufacturing operations in Hungary, Mexico and Ontario.

A component of Mezögép Rt.'s business is the manufacture and supply of corn heads and other components for combines to the agricultural industry in Western and Eastern Europe, North America and Asia. Fiscal year 1998 began with high expectations for the agricultural equipment segment. However, as the year progressed the world market for corn and wheat contracted, the Russian market for agricultural implements collapsed and world-wide demand decreased dramatically. As a result, the agricultural equipment segment customers delayed some orders and cancelled some completely. In both 1999 and 1998, the agricultural markets were so depressed that Mezögép Rt. was unable to cover its fixed costs in this segment. The depressed market is expected to continue through 2000. The Company believes that this business is viable when the market conditions are normal and the Company intends to continue agricultural machinery production.

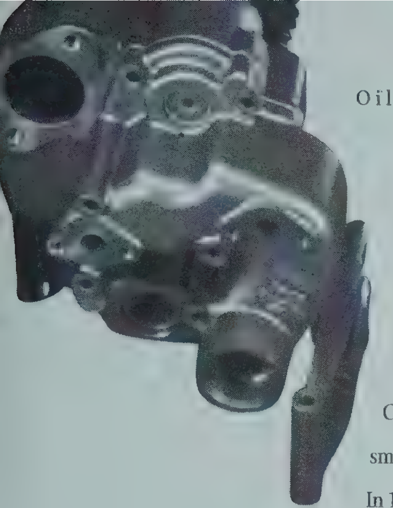
Over the past three years the Company has increased sales by over 25% each year. This growth is substantially in excess of the Company's historical targets and has stretched the Company's resources while significantly lowering its earnings. Over these three years, the Company invested $474 million in capital assets and increased its floor space by 1,862,000 square feet. As previously mentioned, the Company has experienced two very significant setbacks during this period. The collapse of the world-wide agricultural machinery equipment market severely affected Mezögép Rt.'s earnings. As a result, Mezögép Rt. was no longer able to fund its precision machining start ups in Hungary from its cash flow. With the support of Linamar Corporation, Mezögép Rt. has opened a short-term bank line of approximately $15 million and obtained long-term government interest free loans of approximately $2 million. Similarly, in 1999, in Mexico, the Company experienced a very difficult start up at its transmission components plant. The primary customer of the Mexican facility accelerated the production ramp up by several months and then arbitrarily slashed the production in the fall. In order to meet the accelerated ramp up, the Company sent many skilled employees from Guelph, with little notice, to assist in training the new Mexican workers and to assist in the production. After training the new Mexican workforce, the Company was forced to retain these employees with no revenue generation in order to be able to restart production in January. In January 2000 production re-commenced at 60% of capacity.

As noted above, many of the new plants have had difficult start ups. The Company's management and employees continue to work to overcome these difficulties, as we focus on increasing earnings while meeting the customers needs.

Consolidated Results of Operations

Revenues

The Company's consolidated revenues in the year ended December 31, 1999 totalled $1,252 million compared to $998 million in the year ended December 31, 1998 and $771 million for the year ended December 31, 1997. In 1999, the increase in revenue resulted primarily from growth in the Company's engine assembly and engine component business. There was also strong growth in the Company's transmission components business. Driveline, suspension and steering components, which represent a smaller share of our business, experienced relatively significant increases as well. The decrease in the agricultural



Oil pump

machinery business was offset by the increase in the Company's sales of small engines.

In 1998, the increase in revenue was attributable to both the new small gasoline engines for power generation and the growth in the automotive section of the precision machining segment. The growth in the automotive section was primarily related to engine components with some growth in axles and brake components. In 1997, the increase in revenues resulted primarily from increases in the automotive section of the precision machining segment. This growth resulted from increased revenues from all customers, consisting of increased volumes in existing business and also new business opportunities. The growth was spread among components for transmissions, engines, drivelines, axles and steering. Throughout these years, the Company continued to increase its volume of existing business in the truck and automobile markets.

The Company's sales during the year ended December 31, 1999 were realized at an average rate of $104.3 million a month compared to an average rate of $83.2 million a month for the year ended December 31, 1998 and $64.3 million a month during the year ended December 31, 1997. This increase is the result of continued growth in the volume of new and existing business. In 1999, sales increased $253.8 million or 25.4%. Automotive sales accounted for 99% of the increase. In 1998, sales increased $226.9 million or 29.4%. Small engine sales accounted for 37% of this increase and automotive sales accounted for 53% of this increase. In 1997, the production of components for transmissions, engines and steering increased over 1996 by approximately 25% each, while the production for driveline and axles increased by 197% and 67% respectively.

Cost of Sales

Excluding amortization, cost of sales as a percentage of total revenues increased to 79.9% in 1999, from 76.7% for the year ended December 31, 1998 and 71.3% for the year ended December 31, 1997.

The Company has historically practiced conservative accounting practices and continues to do so. In particular, the Company has always expensed its start up costs in the year incurred. This practice is now required under generally accepted accounting principles in the United States. The rapid expansion over the last three years has resulted in high start up costs. This has resulted in relatively lower reported earnings in the last two years as the Company expensed its start up costs. This practice is not considered to be consistent with the practice of other companies in this market sector in Canada.

In addition to rapid expansion, some of our facilities had mature products come to the end of their cycle, which necessitated a changeover to new products. During this period skilled labour resources have been scarce. The Company has also experienced disruptions caused by its customers' labour situations and by the collapse of the agricultural market. In both Mexico and Hungary, labour resources are more of a fixed cost than in either Canada or the U.S.A.

Wheel hub

All of these factors combined to create the substantial increase in the cost of sales in 1999 and in 1998. As well the 1997 short-term high margin contracts referred to below ended. As expected, the new small engine assembly business with its new machining processes has provided significant sales but to date it has generated marginal earnings. The higher margins in 1997 were attributable mainly to the precision machining segment which experienced better margins on some short-term contracts and, to a lesser degree, to the effect of using consigned rather than purchased material to service certain contracts. During 1997, the Company had only one machining plant that was in a start up mode throughout the year.

Amortization

For the year ended December 31, 1999, amortization was $84.8 million or 6.8% of sales. For the year ended December 31, 1998, amortization costs were $58.5 million, or 5.9% of sales. For the year ended December 31, 1997, amortization costs were $49.4 million, or 6.4% of sales. The increase in the ratio in 1999 can be attributed to the recent high level of investment in new equipment. The beginning of production on that equipment in late 1998 and throughout 1999 has caused the level of amortization to rise again. The decrease in the amortization rate in 1998 relates to the dilution effect of the small engine assembly business at LPP Manufacturing Inc. The Company continued to maintain a high level of investment in capital equipment both through direct investment and through purchases of businesses. This created the absolute

Aluminum transfer case

increase in the amortization. The timing of the investments resulted in the 1998 decrease in the following percentage. Amortization compared to the average net book value of capital assets was 19.4%, 18.2%, and 22.1% in 1999, 1998 and 1997 respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $60.3 million or 4.8% of revenues during the year ended December 31, 1999 compared to $46.1 million or 4.6% of revenues during the year ended December 31, 1998 and to $38.1 million or 4.9% of revenues during the year ended December 31, 1997. In 1997, the level of selling, general and administrative expenses as a percentage of sales returned to historical levels and has remained there since that time.

Operating Earnings

The above-noted factors contributed to a further decrease in the Company's operating earnings for 1999. Operating earnings for the year ended December 31, 1999 were $106.8 million or 8.5% of sales compared to $127.7 million, or 12.8% of sales, for the year ended December 31, 1998 and $134.1 million, or 17.4% of sales, for the year ended December 31, 1997.

Interest Income and Expense

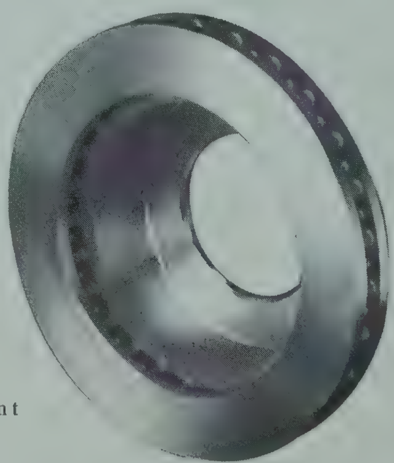
Interest expense in 1999 increased substantially over 1998 as the level of short-term bank borrowings increased rapidly in the first quarter of the year and continued at the higher level for the balance of the year. The average interest rate remained relatively stable in 1999. Total interest expense for the year ended December 31, 1999 was $5.2 million. The interest earned in 1999 relates primarily to temporary cash balances, balances held in foreign currencies and balances held by government agencies. In 1998, the interest earned on the excess cash balances steadily decreased as the excess cash was used for expansion purposes. The average cash balance in 1998 was somewhat lower than in the previous year. However, the interest rate was somewhat more favourable. Total interest expense for the year ended December 31, 1998 was $1.6 million compared to $0.9 million for the year ended December 31, 1997. During the first half of the year ended December 31, 1998, the Company had little requirement for debt. However, as the investments in capital assets and working capital for new business opportunities accelerated, the Company began to rely more on its operating lines. Throughout most of 1997 the interest rate remained stable. However, the average interest rate in 1998 was approximately 35% higher than the rate in 1997. Note 6 in the accompanying consolidated financial statements sets out the details of the long-term debt.

Other Income

For the year ended December 31, 1999, other income was not significant. For the year ended December 31, 1998, other income was mainly comprised of the forgiveness by the government of two loans received by the Company approximately ten years ago. For the year ended December 31, 1997, other income was comprised mainly of a non-recurring dilution gain of $19.4 million on the dilution of the Company's interest in its Hungarian subsidiary, Mezögép Rt. through Mezögép Rt's public share issuance. This non-recurring event added $0.28 to the earnings per share for 1997. In 1997, the balance of other income was the net gain on the disposal of capital assets.

Income Taxes

The federal incentive for manufacturing and processing remained unchanged in the years ended December 31, 1999, 1998 and 1997. In 1999, the losses incurred in Mezögép Rt. resulted in a higher consolidated tax rate, as Mezögép Rt. is tax free. Thus those losses are not tax affected. Also, the losses incurred in the new Linamar de Mexico facility were not tax affected as management does not have enough experience in this business in Mexico to determine the likelihood of being able to earn sufficient income to apply against those losses. For similar reasons the Company did not record a benefit related to the losses incurred in the U.S.A. In each of the prior years, the Company had a reduction in its effective tax rate as a result of the lower income tax rates in other countries in which the Company operates. In particular, Mezögép Rt. has been granted full relief from income taxes until December 31, 2001 as long as it continues to meet certain general growth targets set by the Hungarian government. It is expected that this benefit will diminish somewhat over time as the Company's proportion of earnings earned in taxable jurisdictions continues to increase further over time relative to the increase



Braking component

Lost foam castings and machined assembled parts

in non-taxable jurisdictions. In 1998, the effect of this benefit increased as Mezőgép Rt.'s earnings constituted a greater proportion of the consolidated earnings before tax than in the prior year. This benefit had a reduced effect in 1997 due to the growth in the proportion of the Company's earnings in Canada. There was no tax effect related to the 1997 non-recurring gain recorded as a result of the Mezőgép Rt. public share issuance since the Company has no plans to sell any Mezőgép Rt. shares.

Net Earnings

The Company's net earnings for the year ended December 31, 1999 were $65.6 million, or 5.2% of sales, compared to net earnings for the year ended December 31, 1998 of $84.4 million, or 8.5% of sales, and net earnings of $108.4 million, or 14.0% of sales, for the year ended December 31, 1997

Without the non-recurring dilution gain on the public share issuance by Mezőgép Rt., the Company's net earnings for the year ended December 31, 1997 would have been $89.0 million, or 11.5% of sales.

The decrease in earnings and the lower ratio of earnings as a percent of sales in 1999 and 1998 are attributable to the start ups and plant changeovers and expansions experienced at the Canadian and U.S.A. precision machining plants over the past two years, the collapse of the agricultural machinery market and the aforementioned production stop order in respect of the newly built Linamar de Mexico facility.

Capital Resources and Liquidity

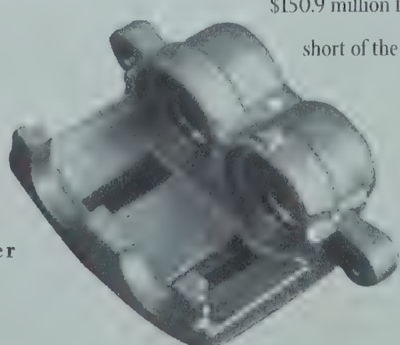
Cash, Short-Term Investments and Short-term Bank Borrowings

Over the past two years, the Company has gone through a period of high expansion. During this period, the Company's net cash resources have decreased from a net cash position of $109.8 million to a net bank advance position of $115.4 million. These resources have been applied primarily to capital expenditures and to non-cash working capital. In 1999, the Company's cash and short-term investments decreased by $10.7 million to $14.5 million while the Company's short-term bank borrowings increased by $83.7 million. Consequently, the Company's net bank advance position at December 31, 1999 was $115.4 million. This represented an increase in the net bank advances of $94.5 million. In 1999, the Company continued to heavily invest in capital assets and its cash from operating activities fell short of payments for these investments by $76.6 million. Through its short-term bank borrowings, the Company also invested $54.8 million to fund the non-cash working capital requirements created by the high level of investment in capital assets. Similar to 1998, 1999 was also a year characterized by investment in the future of the Company. In 1998, the substantial increase in sales related operating activities required $83.2 million in cash to fund non-cash working capital requirements. Likewise, the Company made investments in other businesses totalling $25.0 million. In 1998 the cash from operations of $150.9 million fell short of the Company's purchases of capital assets by $20.4 million. The cash position of the agricultural equipment business in both 1998 and 1997 varied with the seasonality of its business. In general, the agricultural equipment business builds inventories for summer sales and collects its accounts receivable through the fall. The effect on the Company of this seasonality is steadily diminishing as other segments of the Company's business expand while the agricultural equipment business does not. In 1998, the agricultural equipment customers deferred delivery on many contracts as the agricultural equipment market shrank in the latter half of the year. As a result the agricultural equipment business crossed the year end with $7.0 million more in inventory than in the prior year. This excess 1998 agricultural equipment inventory was used up in the 1999 sales and through substantially reduced production.

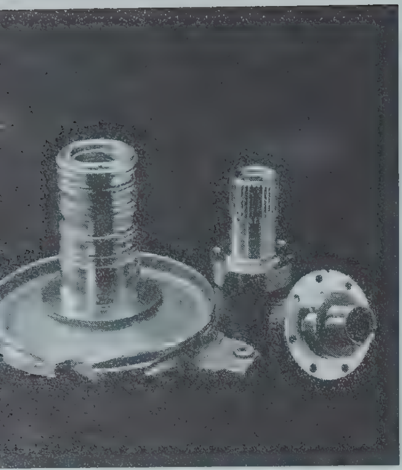
In the first five business days after the 1999 and 1998 year ends, the Company received approximately $13.0 million and $20.9 million from its major customers. In a normal month, most of these cash receipts would be received prior to the month end. In 1999, this balance of deferred cash collections is lower than in 1998 as the Company's largest customer has extended its payment terms past the month end.

Accounts Receivable

The accounts receivable balance of $222.3 million at December 31, 1999 was 36.3% higher than the level as at December 31, 1998. The year over year sales increase was 25.4%. The accounts receivable for the year ended December 31, 1999 were at the level of 17.8% of



Brake caliper



Transmission supports

sales, as compared to 16.3% of sales for 1998 and 14.2% of sales for the year ended December 31, 1997. The accounts receivable balance of $163.1 million at the end of December 1998 was $53.3 million or 48.5% higher than the level as at December 31, 1997. This increase was a result primarily of the 29.4% increase in sales volume. As noted above there has been some difficulty in receiving cash in the few days immediately prior to each year end which has significantly impacted the year end accounts receivable percentages.

At December 31, 1999, the accounts receivable from the Company's three largest customers amounted to 22.9%, 7.2% and 2.8% of the year end accounts receivable while sales to those customers were 21.6%, 7.8% and 7.9% of the Company's sales, respectively. At December 31, 1998, the accounts receivable from the Company's three largest customers amounted to 27.3%, 5.7% and 4.9% of the year end accounts receivable while sales to those customers were 26.1%, 8.8% and 8.3% of the Company's sales, respectively.

Inventories

Inventories were $101.1 million at December 31, 1999 representing an increase of $9.1 million over the level at December 31, 1998. In 1999, there was an increase of only 9.9% in inventories compared to the 25.4% increase in sales. In most precision machining facilities new sales levels were reached with a lower investment in inventories. This improvement resulted from a combination of better management of inventories and an increase in consigned material. By the 1999 year end inventories attributable to the Company's agricultural equipment business had decreased by $7.0 million from the 1998 year end level. Most of the overstocked agricultural inventory was sold during 1999 and the production of agricultural machinery was severely curtailed as well.

Inventories were $92.0 million at December 31, 1998 which represented an increase of $24.3 million over the $67.7 million level at December 31, 1997. In 1998, there was an increase of 29.4% in sales while inventories increased by 35.9%. The increase in inventories was attributable to the increase in sales and the aforementioned collapse of the agricultural equipment business. Inventories were $67.7 million at December 31, 1997, which represented an increase of $19.4 million or 40.2% over the $48.3 million level as at December 31, 1996. This occurred because of increased production volumes and because the new small engine assembly facility was carrying approximately $10.2 million in inventory at the 1997 year end. The facility commenced production in November 1997 and its sales were only $4.8 million by year end. In 1998 and 1999 as this assembly facility established its sources for material, it reduced its concentration of inventories. However, it continues to carry more inventories to support its sales than is necessary in a typical machining plant.

Prepaid Expenses

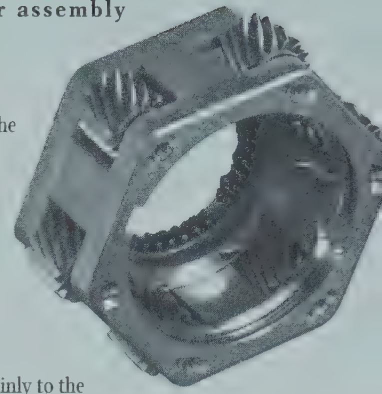
During 1999, the Company established Linamar Sales Corporation as a new direct sales vehicle. The Company also purchased its accounts, for approximately $15 million, from one of its former sales representative agencies. This new subsidiary assumes responsibility for representing the Company with both new customers and with those customers previously served through the former agency. The purchase price has been deferred and is being charged to operations over the next two years.

Capital Assets

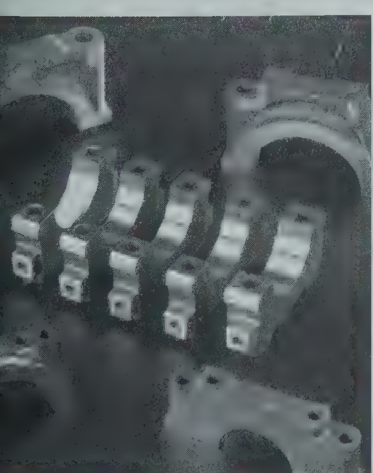
The Company's net book value of capital assets, as at December 31, 1999, was $472.4 million, being $72.2 million greater than the $400.2 million net book value of capital assets as at December 31, 1998. In 1999 the Company acquired capital assets totalling $160.4 million. Of these acquisitions, $138.0 million was invested in the precision machining segment; comprised mainly of machinery and tooling purchases. Such investments relate primarily to the production of drivelines, transmission components, engines and steering components. The balance of the 1999 capital asset investment related primarily to the purchase of an airplane for $9.4 million and to the Company's construction of the additions to certain of its facilities for a total cost of approximately $8.5 million. These investments provided an additional manufacturing floor space of approximately 210,000 square feet. These plants are part of the precision machining facilities located in Guelph, Ontario. In 1999, the Company made direct payments of approximately $168.5 million for the purchase of capital assets. These payments were funded through cash from operating activities and from increases in short-term bank borrowings. The Company's net book value of capital

Driveline component

Carrier assembly



assets, as at December 31, 1998, was $400.2 million, being $157.6 million greater than the $242.6 million net book value of capital assets as at December 31, 1997. In 1998, the Company acquired capital assets totalling $222.8 million. Of these, $35.5 million were acquired through the Company's acquisitions and the balance was purchased directly. Of these acquisitions, $214.9 million was invested in the precision machining facilities, comprised mainly of machinery and tooling purchases. These investments primarily related to the manufacturing and assembly of engines and engine components, driveline, fuel system components and foundry capacity. The balance of the 1998 capital asset investment in the precision machining segment related primarily to both the Company's construction of the new Corvex Mfg., Eston Mfg. and Linamar de Mexico S.A. de C.V. manufacturing facilities and the Linamar Transportation Inc. facility and the Company's acquisition of its share of Industrias de Linamar S.A. de C.V. and the acquisition of Standard Induction Castings Inc. The Company also constructed additions to the Diversa Cast Technologies Inc., Standard Induction Castings Inc. and Comtech Inc. plants. The total cost of new facilities and additions was approximately $36.1 million. In total approximately 440,000 square feet of manufacturing floor space was constructed and 1,035,000 square feet was acquired. In 1998, the Company made direct payments of approximately $171.2 million for the purchase of capital assets. These payments were funded through cash from operating activities and excess cash balances at the beginning of the year.



Bearing caps

Other Assets

In 1997, the Company invested $1.143 million in 5% preference shares in a new customer of its subsidiary Mezögép Rt. These shares are fully retractable at the option of the Company in equal amounts over the next five years and $0.229 million were redeemed in each of 1999 and 1998. This customer purchased approximately $0.4 million in pickup headers from Mezögép Rt. in the 1999 fiscal year.

Working Capital

Working capital at December 31, 1999 was $35.0 million, a decrease of $36.3 million over working capital at December 31, 1998. The decrease in working capital at the end of 1999 relates to the continued high level of investment in capital assets. Working capital at December 31, 1998 was $71.3 million, a decrease of $68.9 million over working capital at December 31, 1997. The decrease in working capital at the end of 1998 related to the major investment in capital assets and new companies noted above. The changes in both 1999 and 1998 are considered to be within the Company's normal operating limits. The Company is continuing to monitor its bank borrowing in conjunction with its projected cash flows. At year end, the Company preferred to retain its current bank short-term borrowing position rather than incur long-term debt to take advantage of the flexibility for repayment and the lower interest rates.

Financial Resources

Although the Company's short-term bank borrowings increased substantially during the first quarter of 1999, the Company's financial position remains strong. As noted above, the increase in the short- term bank borrowings related mainly to the high level of investment in capital assets and in the related non-cash working capital requirements due to the increased level of operations. During the year ended December 31, 1999, cash provided from operating activities was not sufficient to fund the payments for purchases of capital assets. At year end, the long-term debt accounted for 0.8% of total capitalization compared to 1.2% in the previous year. During fiscal 1999, as in the prior year, the cash from operating activities was used mainly to fund capital asset purchases. Cash from operating activities increased by $24.3 million to $91.9 million. The non-cash working capital still consumed $54.8 million of the funds provided.

During the year ended December 31, 1998, cash provided from operating activities decreased by $79.3 million to $67.6 million. In 1998, cash from operating activities was used primarily to fund purchases of capital assets. Cash from operations increased by $6.4 million during 1998 from $144.5 million to $150.9 million over the previous year, and the non-cash working capital provided by operations in 1998 decreased by $85.7 million to a use of $83.2 million from a source of $2.5 million. This reversal in 1998 was expected. The long-term payables, which are due in 2000, relate to the extended payment terms on the purchase from Renault France of Industrias de Linamar S.A. de C.V. in Mexico. The Company expects

Pumps –
oil, water, vacuum

that these will be funded from the cash flow generated from the operations of that company.

At the end of fiscal 1997, long-term debt accounted for only 2.2% of total capitalization. During fiscal 1997, cash provided from operating activities was primarily used to fund purchases of capital assets. Cash from operations increased by $48.4 million during 1997, from $96.1 million to $144.5 million over the previous year, and the non-cash working capital provided by operations in 1997 decreased by $29.8 million, to $2.5 million at December 31, 1997. In fiscal 1997, the Company also received proceeds of $35.5 million from the issuance of shares by Mezőgép Rt.

At December 31, 1999, the Company had available approximately $55 million of unused short-term bank credit facilities. The Company continues to service both its long-term and short-term indebtedness with cash produced by its operating activities.

The Company's interest free loans result from government initiatives and are repayable to the various levels of government according to the terms indicated in the attached financial statements. It is not possible for the Company to predict the likelihood of similar loans being available in the future.

The Company believes that cash from operations and borrowings available under its revolving credit facility will be sufficient to meet its anticipated cash needs for the foreseeable future. Since 1995, the Company has paid quarterly dividends. Each year those dividends, which amounted in the aggregate to 16 cents and 132/3 cents in 1999 and 1998, respectively, after adjusting for a three-for-one share split effective May 19, 1998, have been based on the Company's performance in the prior year and on the expected performance in the coming year. Management expects that the Board of Directors will continue its established dividend policy. In 2000, the Company expects to be able to maintain its future interest expense at the current level, support the dividend policy, and make certain payments on long-term debt without incurring further long-term debt. The Company is currently considering the opportunity to establish a committed facility of bank debt. The Company may make modest acquisitions during the coming year as appropriate opportunities arise; however, the focus of management is on improving the net earnings of the Company primarily through process improvements. Management expects to fund any such opportunities through the cash from operating activities.

Future Income Taxes

In 1999, future income taxes decreased by $1.6 million due to reductions in timing differences related to amortization on capital assets and the increase in losses carried forward in three subsidiaries.

In 1998, future income taxes increased by $4.8 million due to increased timing differences resulting from amortization on capital assets. In 1997, the Company adapted the CICA's recommendations concerning the change from deferred income taxes to future income taxes. This change was applied retroactively.

Outlook

The Company expects that the sales revenue from its automotive business will continue to grow in 2000 at a somewhat lower rate than experienced during the year ended December 31, 1999, as management focuses attention on improving the Company's profitability. This sales growth, which is anticipated to be approximately $100 million, is expected to develop from continued expansion in current programs as the related end products become increasingly used in new automotive models, from the ramp-up of production at the new facilities and from the commencement of production in a number of programs for which capital investments were made during 1999 and 1998. The Company will continue to seek such new opportunities for profitable growth in the coming year.

The Company continues to receive new automotive related contracts for machining parts and for assemblies. Most new business in respect of precision machining typically has a six to twenty-four month start up phase while equipment is obtained and the manufacturing process is defined. Over the subsequent 12 to 24 months, the process is then refined and the customer's volumes are steadily increased to the expected full production level. In some cases the Company is able to take advantage of short-term production opportunities. These short-term opportunities result when the customer reaches capacity as the market grows. With the Company's recognized ability to react quickly with both people and equipment resources, Linamar is a preferred source for critical short-term contracts. Such business is expected to continue through the next year. The Company limits its exposure under such

programs by using general purpose equipment that can be used in other applications once the short-term contract ends.

In the second half of 1997, the Company obtained a contract to produce Onan gasoline engines for power generation. The engines manufactured by the Company since 1997 are now being sold for use in portable arc welders, motor homes, and other commercial uses. Sales of these engines reached approximately $88 million in 1998 and $107 million in 1999. The Company continues to pursue other opportunities for these engines. Higher volumes are necessary to make this strategic move a profitable one. This business develops and extends the Company's assembly and other engine component capability. Subsequent to the year end, the Company signed a licence agreement with Kubota diversifying the product offering. Previously, the engines produced were restricted to one single cylinder and five twin cylinder engines. Four additional single cylinder engines are to be produced. These engines open up the market for a wider variety of applications including lawn tractors, snow throwers, go carts, power washers and small generators. The Company continues to enter into more long-term contracts. The Company attempts to maximize the use of general purpose machinery and reviews the timing of the expiry of these contracts to ensure there is minimal disruption to the Company's operations. The Company expects to make payments for capital assets totalling approximately $130 million in the next year, a substantial portion of which will be used to acquire new machinery for new programs. The balance is used to increase capacity as required for current programs and to achieve the necessary efficiencies that accrue from appropriately employing current technology. At December 31, 1999, the Company had approximately $50.3 million in outstanding commitments for capital expenditures under purchase orders and contracts, and a further $22.4 million in accounts payable. In early 1998, the Company incorporated a subsidiary in Mexico to machine transmission parts for the automotive industry in Mexico. This business commenced production in mid 1999. Since the Company has committed to expand in this region, many of the Company's customers have expressed interest in the possibility of obtaining manufactured product with Mexican content from the Company's Mexican subsidiary.

In fiscal 1998, the Company also invested, with a 45% minority partner, in an engine assembly facility. This facility, located in Torréon, Mexico, has one million square feet of manufacturing space. Approximately 50% of the manufacturing space in this facility is dedicated to machining engine components with the balance used or available for assembly. Currently this facility is used for the machining of engine components and the assembly of engines for Renault France under a contract, which lasts until December 2002. By the end of such contract the Company and its partners expect that an appropriate manufacturing opportunity for this facility will be in place. Meanwhile, the Company and its partners continue to explore other alternatives for the excess manufacturing capacity at this large facility.

As previously noted, the earnings at Mezögép Rt. are currently depressed due to the many new programs in start up mode in their automotive component and precision machining segment and because of the depressed market for agricultural machinery. The Company anticipates only minor improvement in 2000 as both of these factors are expected to continue their influence. However, significant improvement should be realized beginning in 2001.

The Company's main competitors are five large manufacturing businesses centered in North America, and four smaller U.S.A. operations which are significantly smaller than the Company, as well as the in-house capabilities of the automotive manufacturers. The Company continues to expect that it will face strong and increasing competition based on price, quality, service and delivery. In order to maintain its competitive advantage and to satisfy its customers, the Company is continuing to develop strategic alliances, partnerships or joint ventures with its suppliers, customers and other automotive companies.

The Company has been developing an additional casting capability in a small casting company, Diversa Cast Technologies Inc. This casting capability allows the Company to use the "lost foam" technique to produce some castings for products that the Company currently machines. During the past year, the company installed a state-of-the-art casting line with new furnaces at the Diversa Cast Technologies Inc. facility in Guelph. With the new line in operation and new furnaces in place, the company expects that production and sales will

Machined water pump

Rear drive module

increase steadily. Although this start up has been difficult, the Company expects to reach a breakeven on these operations by the end of 2001. The level of sales in this area is expected to grow to about $15 million annually in two years.

In 1998, the Company also established a new entity, Standard Induction Castings Inc., through which it and a minority partner, the previous owner of the business, purchased the business of Standard Induction Castings Ltd. in the city of Windsor, for approximately $3.1 million. This business produces both grey iron and ductile iron castings. The new partner continued his role in managing the business. The Company expanded the productive capacity of this facility during 1998 with the further investment of $4.8 million, comprised of a building addition and additional manufacturing capacity. Due primarily to the disruption caused by the construction, this foundry was not profitable in 1998. In 1999, management rationalized the foundry's customer base targeting long-run long-term automotive jobs and expanded its sales. New equipment at the foundry proved to be very difficult to work with. As 1999 progressed, management struggled to make efficiency improvements and meet its customer requirements. In 2000 management plans to continue its rationalization program and efficiency improvements, and will concentrate on producing ductile iron castings. The Company expects the foundry to be at a breakeven by year end with a sales level of about $25 million.

During 1998, the Company took advantage of two investment opportunities in the U.S.A. The first was the purchase of a business being developed to machine, clean and paint engine blocks for General Motors. The Company had hoped that this rented facility, located in Michigan, would be profitable in 1999. The start up at this facility has proved to be very difficult. As production began, it became apparent that the equipment was not sufficient for the purpose of this contract. The Company found it difficult to attract appropriate personnel. These problems have been addressed; however, it is now evident that the pricing on the contract was not adequate. Management is currently in negotiations with the customer to resolve this issue and hopes to achieve an amicable resolution during the first half of 2000.

The second acquisition in the United States, which has proven to be more successful, was the purchase of a 60% interest in a business which machines cylinder heads and connecting rods for the partner holding the other 40% interest. The equipment used in this business is provided by the minority partner. The business, located in a rented facility in Florence, Kentucky is accounted for by proportionate consolidation.

In 1998, the Company built a 97,000 square foot facility in Guelph to machine fuel system components for diesel engines. In 1999, this facility obtained a contract to machine driveline components. The Company also built a further 95,000 square foot facility in Guelph to machine driveline components for the automotive industry, and in 1999 this facility obtained further contracts for driveline components. These numerous components require many sample approvals prior to full production. This is both a lengthy and costly procedure. In 1999 these facilities incurred large start up costs and both will continue to incur significant start up costs throughout most of 2000.

Efforts to improve margins, particularly at the start up plants are continuing. These efforts consist of working with employees, suppliers and customers to improve the processes to achieve appropriate margins. Improvements are anticipated through a combination of gaining operating experience on a number of new lines and the ramping up of contracts towards full production.

During 1999 the Company took steps to strengthen its management of operations to meet the challenges of growth. The Company appointed a dedicated Chief Operating Officer. The Company also redefined the Group Vice President position to improve the focus on operational performance. This redefinition restricted the scope of the position to three or four facilities. Simultaneously, the Company proceeded to select appropriate individuals to fill these new positions. The Company has also appointed a Director of Quality at the Corporate level whose focus is the management of quality issues.

The Company operates through facilities that function as autonomous operating units. Each facility is operated as a profit centre managed by a general manager with production expertise who has discretion, within broad guidelines established by the Company's senior management, to determine hours of work, sources of supply and contracts to be performed. The independence of each plant allows the Company to react quickly to

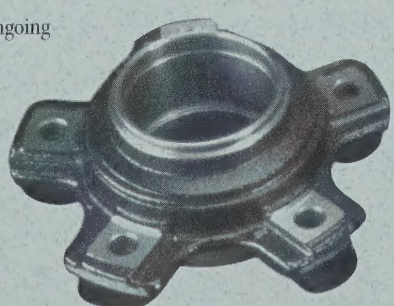
new business opportunities. It also allows operational decision-making and cost control to occur at the plant level, thus permitting the monitoring of each profit centre and the effective implementation of management incentive programs.

The Company is committed to the premise that organizational quality is one of the most critical elements in building and sustaining competitiveness in a global marketplace. Organizational quality requires that effective quality operating systems be incorporated into all of the business functions. The Company has invested heavily in advanced measuring and monitoring equipment and utilizes a program known as a Statistical Process Control. This gives a machine operator the ability to rectify deviations that potentially lead to quality problems or unnecessary machine wear. The Company also performs ongoing machine, process and gauge capability studies to ensure that quality and productivity are maintained or improved where possible. At year end, eighteen of the Company's twenty-seven facilities in the precision machining segment were QS-9000 registered suppliers and two more facilities have been registered since the year end. The balance of these facilities are striving for registration in 2000. The continued success of the Company's quality program is evidenced by its success under the QS-9000 continual recertification program.

The Company has in the past restricted its automotive research and development activities primarily to ongoing process development, undertaken at each plant by the management team in response to opportunities as they arise. As an integral part of its drive to become a full service supplier, in 1998, the Company established a small product development team with a dual focus. First, this group works with potential customers to develop the machining and manufacturing processes on new programs. Second, the group works with individual facilities on cost reduction efforts for their respective customers. The product development team primarily dedicates its efforts to transmission components. Research and development for agricultural equipment and for the small engine business, although similar in nature, is more product than process oriented.

The Company continues to explore and obtain automotive components and parts opportunities in Europe for manufacture in its Mezögép Rt. facilities. The automotive experience gained from Mezögép Rt.'s production of vacuum pumps, recent machining of new automotive parts, and the related ISO 9002 Registration make the Mezögép Rt. subsidiary a capable producer for the Western European market.

The Company expects that in 2000 the agricultural equipment segment's revenues at Mezögép Rt. will remain at the current low levels. The corn headers produced by Mezögép Rt. for the Western European market currently represent the only agricultural product of the Company that has a significant share of its market. However, Mezögép Rt. does have a variety of other harvesting products which it produces. In addition, Mezögép Rt. will continue to supply AGCO with combine parts and assemblies through its long-term contract.



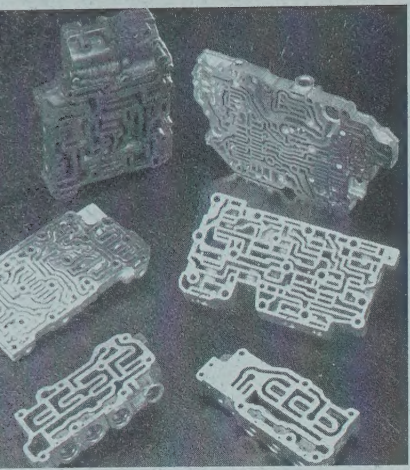
Wheel hub

Risks associated with Eastern Europe include political and currency instability, developing infrastructure, the potential inability to repatriate earnings, and a developing legal framework. Certain of these risks, particularly currency instability, are also present in Mexico. While reforms directed at political and economic liberalization are in process in these jurisdictions, and in some respects, significant progress has been made, there can be no certainty that these reforms will continue or, if continued, will be effective.

In 1998, the Company established a year 2000 compliance steering committee with a Year 2000 Coordinator at each facility. The Company focused its Year 2000 program on the steps laid out by the AIAG (Automotive Industry Action Group) which is sponsored by GM, Ford, Chrysler, Toyota and Volvo for use by themselves and their suppliers. The Company's steering committee is pleased with the results of the Company's efforts. No significant problems have been uncovered either at or since the year end. Based on information available to date, management believes that the year 2000 issue will not have a material impact on the Company's results of operations or financial position.

Other

As noted in the accompanying consolidated financial statements, the Company's sales to the United States amounted to $1,051.5 million. Similarly, many of the Company's raw materials, both forgings and castings, are purchased from the U.S.A. Most of the Company's contracts, both for revenue and expenses, are thus denominated in US dollars.



Valve bodies

The Company's policy is not to speculate on exchange rates. The Company minimizes the net foreign currency exposure in contracts by negotiating sale contracts, which provide a measure of exchange rate protection, and by entering into forward exchange contracts. These contracts, as described in note 12 to the consolidated financial statements, are designed to provide some protection for margins anticipated at the time of the contract award. The Company normally purchases forward contracts monthly for approximately three years to cover the projected exposed US dollar net cash inflow. During 1998, General Motors required the Company to convert its US dollar contracts to Canadian dollars. The Company is still currently under some pressure from some of its other US customers to quote future contracts in Canadian funds. As a result, it is expected that the growth in the Company's foreign currency net cash flow will be reduced.

Over recent years the Company has been reviewing its treatment of its foreign operations with regard to foreign currency translation. After much consideration management has determined that it is now appropriate to treat Mezögép Rt., Industrias de Linamar S.A. de C.V. and Eagle Manufacturing L.L.C. as self-sustaining operations. This change is effective January 1, 2000.

The Company attempts to offset cost increases through a concerted effort in its sales, purchasing and production functions to maximize productivity. In the contract bidding process, economic inflation factors are estimated and applied to the costs. Also, certain of the long-term fixed price contracts have inflation protection clauses.

Internal efficiencies achieved by purchasing and production improvements generally provide moderate inflation protection. Considering current rates of inflation in North America, the Company believes that inflation does not pose a significant risk.

The precision machining business accounted for approximately 98.1% of the Company's consolidated sales during the year ended December 31, 1999. Approximately 21.6% of the consolidated sales were to customers included in the General Motors group of companies, approximately 7.9% were to Onan Corporation, approximately 7.8% were to Detroit Diesel Corporation and approximately 7.3% were to customers included in the Ford Motor group of companies. Although no single product sold to any of these customers constituted more than 10% of the Company's consolidated sales, the loss of any of these customers or the delay or cancellation of any orders from or production projects for any such customers could have a material adverse effect on the financial condition of the Company.

The Company has been named in lawsuits related to certain employee-related situations. The Company is vigorously defending these actions. It is expected that these may result in immaterial costs to the Company either through settlement payments negotiated by the Company or through the insurance policy deductible payments in the cases that are being handled by the Company's insurers.

While management believes that the Company is in substantial compliance with all material governmental requirements relating to environmental controls on its operations, and carefully investigates environmental risks in its acquisitions, changes in such regulations are ongoing and may make environmental compliance, such as emission control, waste disposal and water quality management, increasingly expensive.

The Company has established an Environmental Committee consisting of senior management. This Committee reviews on an ongoing basis the Company's environmental programs and monitors its compliance with applicable environmental laws. This Committee reports quarterly to the Board of Directors of the Company. The Company also annually engages an independent environmental auditor to review the Company's compliance with applicable environmental requirements. The Company knows of no material environmental liability at this time. Management is not able, however, to predict future costs which may be incurred to meet environmental obligations.

Officers

Frank J. Hasenfratz
Chairman & Chief Executive Officer

Linda S. Hasenfratz
President & Corporate Secretary

Jim Jarrell
Chief Operating Officer

W. George Sims
Chief Financial Officer & Treasurer

Michael Annable
Director of Human Resources
& Administration

Mark Stoddart
Director of Sales & Marketing

Nick Efthimakis
Group Vice President

Ted McGregor
Group Vice President

Walter Stachnyk
Group Vice President

Andy Mikalauskas
Group Vice President

Werner Memering
Group Vice President

Csaba Havasi
Group Vice President

Directors

Frank J. Hasenfratz
Chairman of the Board &
Chief Executive Officer
Linamar Corporation

Linda S. Hasenfratz
President & Corporate Secretary
Linamar Corporation

Hugh Guthrie*
Partner
Hungerford, Guthrie & Berry,
(Barristers and Solicitors)
Guelph, Ontario

William J. Harrison†*
President & Chief Executive Officer
Lift Technologies Inc.

David Buehlow†*
Retired Partner of
PricewaterhouseCoopers LLP
(formerly Coopers & Lybrand)

John Jarrell†
Retired General Motors Executive

Mark Stoddart
Director Sales & Marketing
Linamar Corporation

† Audit Committee

*Human Resources and
Corporate Governance Committee

The report on Corporate Governance can be found in the Management Information Circular.

Auditors, Transfer Agent & Registrar

PricewaterhouseCoopers LLP, Chartered Accountants, Kitchener, Ontario are the auditors of Linamar Corporation. The transfer agent and registrar for the Common Shares of the Company is Montreal Trust at its principal offices in Toronto.

Shares Listed

Toronto Stock Exchange
trading under LNR

Driveline components

Linamar

Linamar Corporation
287 Speedvale Avenue West
Guelph, Ontario
Canada N1H 1C5
Tel: (519) 836-7550
Fax: (519) 824-8479
www.linamar.ca